218449

STATE OF SOUTH CAROLINA

(Caption of Case)

IN RE: Joint Application of Frontier Communications Corporation, New Communications of the Carolinas, Inc., New Communications Online, and Long Distance, LLC, and Verizon Enterprise Solutions LLC for Approval of the Sale of Assets and the Transfer of Authority and Certificates

BEFORE THE PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA

COVER SHEET

DOCKET NUMBER: 2009 - 220 - C

(Please type or print)

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DOCKETING INFORMATION (Check all that apply)

☐ **Emergency Relief demanded in petition**

☐ **Request for item to be placed on Commission's Agenda expeditiously**

☒ **Other:** Testimony

INDUSTRY (Check one)	NATURE OF ACTION (Check all that apply)		
☐ Electric	☐ Affidavit	☐ Letter	☐ Request
☐ Electric/Gas	☐ Agreement	☐ Memorandum	☐ Request for Certification
☐ Electric/Telecommunications	☐ Answer	☐ Motion	☐ Request for Investigation
☐ Electric/Water	☐ Appellate Review	☐ Objection	☐ Resale Agreement
☐ Electric/Water/Telecom.	☐ Application	☐ Petition	☐ Resale Amendment
☐ Electric/Water/Sewer	☐ Brief	☐ Petition for Reconsideration	☐ Reservation Letter
☐ Gas	☐ Certificate	☐ Petition for Rulemaking	☐ Response
☐ Railroad	☐ Comments	☐ Petition for Rule to Show Cause	☐ Response to Discovery
☐ Sewer	☐ Complaint	☐ Petition to Intervene	☐ Return to Petition
☒ Telecommunications	☐ Consent Order	☐ Petition to Intervene Out of Time	☐ Stipulation
☐ Transportation	☐ Discovery	☒ Prefiled Testimony	☐ Subpoena
☐ Water	☐ Exhibit	☐ Promotion	☐ Tariff
☐ Water/Sewer	☐ Expedited Consideration	☐ Proposed Oder	☐ Other:
☐ Administrative Matter	☐ Interconnection Agreement	☐ Protest	
☐ Other:	☐ Interconnection Amendment	☐ Publisher's Affidavit	
	☐ Late-Filed Exhibit	☐ Report	

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August 6, 2009

Charles L.A. Terreni
Chief Clerk & Administrator
Public Service Commission of South Carolina
PO Drawer 11649
Columbia, SC 29211

Re: Joint Application of Frontier Communications Corporation, New Communications of the Carolinas, Inc., New CommunicationsOnline And Long Distance LLC and Verizon Enterprise Solutions LLC for Approval of the Sale of Assets and the Transfer of Authority and Certifications
Docket No. 2009-220-C

Dear Mr. Terreni:

Please find attached the original Pre-Filed Rebuttal Testimony of Daniel McCarthy on behalf of Frontier Communications Corporation.

By copy of this letter, the Pre-Filed Rebuttal Testimony and exhibits are being provided to counsel and/or parties of record.

With kindest regards, I am

Sincerely,

Steven W. Hamm
C. Jo Anne Wessinger Hill

SWH/JWH:kjt
Enclosures
Cc: C. Dukes Scott, ORS, Executive Director
Nanette S. Edwards, ORS Chief Counsel and Director of Legal Services
M. John Bowen, Jr., Esq.
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BEFORE

THE PUBLIC SERVICE COMMISSION

OF SOUTH CAROLINA

DOCKET NO. 2009-220-C

IN RE: Joint Application of Frontier Communications Corporation, New Communications of the Carolinas Inc., New Communications Online, and Long Distance Inc., Verizon South Inc., Verizon Long Distance Inc. and Verizon Enterprise Solutions LLC for Approval of the Sale of Assets and the Transfer of Authority and Certificates

REBUTTAL TESTIMONY OF DANIEL MCCARTHY

I. INTRODUCTION

Q. Please state your name, occupation and business address.

A. My name is Daniel McCarthy. I am Executive Vice President and Chief Operating Officer of Frontier Communications Corporation ("Frontier"). My business address is 3 High Ridge Park, Stamford, Connecticut 06905.

Q. Are you the same Daniel McCarthy who filed direct testimony in Docket No. 2009-220-C?

A. Yes, I am.

Q. What is the purpose of your testimony?

A. I am providing rebuttal testimony to the Testimony of Mr. Charles W. King, who filed on July 30, 2009, on behalf of The Department of Defense and All Other

Federal Executive Agencies. My testimony also responds to and affirms the Direct Testimony of Mr. Christopher J. Rozycki, who filed on July 30, 2009, on behalf of the State of South Carolina Office of Regulatory Staff ("ORS").

Q. Can you summarize your testimony?

A. Yes. I will comment on four general topics raised by Mr. King, and I will reference the ORS testimony, along with other relevant materials, in support of my responses.

- I will demonstrate that Mr. King is incorrect in asserting that the Public Service Commission of South Carolina ("Commission") should establish safeguards which I will show are unnecessary with respect to Frontier's proposed transaction to acquire certain wireline communications operations of Verizon Communications Inc. ("Verizon") in South Carolina. The safeguards he proposes are designed primarily to avoid difficulties similar to those that occurred in the Carlyle Group–Hawaiian Telcom transaction ("Hawaiian Telcom") and the FairPoint Communications ("FairPoint") - Verizon Northern New England transaction.[1] The primary problems that arose in the two previous Verizon wireline divestitures were the direct result of the acquiring companies' need to create major new back-office systems in order to manage the acquired operations properly and to serve customers effectively. By contrast, Frontier has existing fully-functional and effective systems for its

[1] See Testimony of Charles W. King, p. 9, lines 1-3.

existing operations and will be acquiring the existing Verizon systems to serve customers in South Carolina. Therefore, with the ability to continue using the existing Verizon systems, no new safeguards regarding the proposed Frontier-Verizon transaction are necessary.

- I will show that Mr. King is incorrect when he claims that Frontier's financial health, pre-transaction and post-transaction, is somehow at risk. Mr. King focuses his arguments on a misunderstanding of Frontier's dividend policy and he speculates based on *de minimis* analytical support that the pro forma combined company may have inadequate access to capital for investment in the future. My testimony will affirm the opinion of the ORS that Frontier has the "technical, financial, and managerial resources sufficient to provide the services requested,"[2] and reaffirm my prior testimony that not only will Frontier continue to be financially strong following the closing of the proposed transaction, its financial position will be improved.
- I will explain how Mr. King is incorrect when he contends that there are service quality concerns that justify the imposition after the transaction of new and additional service quality metrics on Frontier beyond the service quality standards already in place in South Carolina.
- Finally, I will affirm that Frontier is assuming all of Verizon South's obligations to serve retail and wholesale customers in South Carolina that are not being retained by Verizon.

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[2] See Direct Testimony of Christopher J. Rozycki, p. 5, lines 11 ff.

I. Previous Transactional Problems Due to Need to Create Back-Office Systems

Q. Can you summarize Mr. King's concerns regarding the two recent divestitures of Verizon properties?

A. Yes. Mr. King references the Verizon divestiture of Hawaiian Telcom in 2004 to a private equity investor, The Carlyle Group. He also comments on the Verizon divestiture to FairPoint of its local telephone assets in Maine, New Hampshire, and Vermont, a transaction that unfolded through 2007 and was consummated in March 2008. Mr. King's specific issue is that service quality problems ensued as a result of the slow development and ineffective implementation of entirely new back-office systems in both transactions. In the Hawaiian Telcom and FairPoint transactions, the acquirers did not purchase the existing Verizon back-office systems and, therefore, had to hire third-party systems integrators to create new systems "from scratch" to support the operation of the acquired businesses. The failure to develop and deploy those systems in a timely manner apparently affected retail and wholesale operations after the transactions closed, which then contributed to financial problems for the two companies (Hawaiian Telcom and FairPoint).[3]

Q. Is it your understanding that the service problems for Hawaiian Telecom and FairPoint were specifically the result of a failure to create back-office

[3] King, p. 3, line 23 through p. 9, line 3.

systems that functioned effectively at the time the operations were transitioned from the legacy Verizon systems?

A. Yes. I believe that the service and operating problems were related fundamentally to the need to implement newly-developed back-office systems, which make it possible to take customer orders, efficiently process those orders, generate customer bills, and generally provide internal controls to manage the operations of the company. The systems transition problems appear to have been the primary source of the ensuing service problems. Mr. King also points to this root cause for the service problems at Hawaiian Telcom and FairPoint.

Q. Is Mr. King correct that the previous Verizon divestitures provide a lesson that applies to the proposed Frontier–Verizon transaction?

A. No. The Frontier transaction is entirely different from the previous transactions in many ways, including the plan for post-transaction back-office systems, as I explained in detail in my Direct Testimony.[4] In general, to the best of my knowledge, in the case of Hawaiian Telcom, the purchaser was not an existing communications company or operator; there was no experienced management team that had been operating the company over an extended period of time; Hawaiian Telcom was required to create fully-functional systems to replace the Verizon operational support platform (the acquiring entity had no existing systems); and the financing structure was very highly leveraged. In the case of

[4] See Direct Testimony of Daniel McCarthy, p. 46, line 5 through p.51, line 17.

FairPoint, it is my belief that, while there was an existing management team, FairPoint did not have existing systems to support the Verizon properties and chose to create totally new systems for the transaction and FairPoint's operations were dramatically smaller than the businesses it was acquiring. By contrast with those two previous transactions, Frontier is a large, successful operator of communications businesses with nationwide scope and scale; the company has a history of successfully executing substantial acquisitions; and Frontier has existing back-office systems that are scalable to integrate the Verizon operations. In addition, in this case, the proposed financing structure for the acquisition will improve Frontier's financial characteristics materially.

With regard to Mr. King's focus on the systems component of the proposed transaction, Frontier is purchasing Verizon's existing fully operational systems in South Carolina. Importantly, Verizon will be transferring to Frontier the operational support systems that are used today in those exchanges in the provision of high-quality service. As a result, there is no need for Frontier to develop new operational, customer support, and financial systems, and then to cut over to the new systems at closing in order to operate the acquired properties. Based on Frontier's experience, significant scope and scale, and the structure of the transaction, the problems that occurred in the other Verizon divestitures should not be a concern to the Commission. As such, there is no new risk that merits "that this Commission establish safeguards to ensure that the difficulties that arose in these previous spin-offs will not be repeated in South Carolina."[5]

Q. Does ORS witness Mr. Rozycki comment on the back-office systems and the transition "risks" that concern Mr. King?

A. Yes. Mr. Rozycki affirms that Frontier has the technical, financial, and managerial resources "sufficient to provide reliable telecommunications services and to operate the systems currently run by Verizon."[6] Mr. Rozycki notes that "Frontier has been in the telephone business for many years" and that "Frontier is one of the largest local telephone companies in the U.S."[7] The ORS witness goes on to explain, with regard to the criterion that Frontier's services must meet the service standards of the Commission, that "Frontier is purchasing a fully operational local and long distance business from Verizon," that Frontier "will purchase the right to use Verizon's back-office and billing systems," and that "[i]n essence Frontier is acquiring Verizon's total, working telecommunication business in South Carolina, complete with the employees, tools, and instructions necessary to keep it properly running."[8] I concur with Mr. Rozycki's assessment.

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[5] King, p. 9, lines 1-3.
[6] ORS, p. 5, lines 20-22.
[7] ORS, p. 5, lines 15-17.
[8] ORS, p. 6, lines 5-11.

Q. Do independent investment analysts agree that the proposed transaction is different from previous Verizon divestiture transactions and that Frontier's acquisition is financially sound?

A. Yes, the published response of independent research analysts to the proposed transaction generally has been positive and supportive of Frontier's ability to execute the transition effectively. For example, on June 12, 2009, Raymond James and Associates, Inc., issued a report explaining that it viewed the transaction as very different from the FairPoint transaction, and, in the analyst's professional opinion, that Frontier was making a "prudent acquisition." The report states:

> We note several significant differences between [this transaction and the FairPoint transaction]: Frontier is de-levering (not re-levering) significantly through the transaction, should be solidly in investment grade range, is proactively cutting its dividend, and plans on driving broadband penetration and availability much higher than current levels, (Verizon properties have 60% availability, Frontier's have 92%). . . .
>
> Frontier will acquire GTE's entire legacy IT systems in 13 of the 14 states, giving it the ability to run parallel systems for all products in those 13 states. This is different from a forced cutover or new systems development, which actually requires a hastened time frame and can be fraught with peril. Effectively, these are stand-alone systems with a general manager overseeing them and won't require any new systems development on the part of Frontier until management is ready to move them over. . . .
>
> Overall, we believe Frontier is making a prudent acquisition, which will expand its scale, lower its leverage, and improve its dividend sustainability, thus rewarding patient investors over time.[9]

[9] Raymond James & Associates, FTR: Notes From the Road (June 12, 2009) (attached as Exhibit 1).

In addition, in its Rating Action placing Frontier's corporate credit ratings on review for possible upgrade following the announcement of the proposed transaction, Moody's Investors Service indicates that "VZ-Spinco will be operating under independent management and operating systems prior to the merger effectiveness and will not require a timed cutover, which is expected to materially reduce the transition issues that other carriers have experienced."[10] It is also noteworthy that Fitch Ratings, in placing Frontier's credit ratings on Rating Watch Positive as a result of the proposed transaction states that "Fitch believes the execution risk is offset to some extent by Frontier's significant experience in integrating large transactions and the scalability of its existing systems."[11] Clearly, these credit rating agencies, which tend to have a conservative perspective, believe that on balance the transaction is positive for the company from a financial perspective as opposed to being a financially risky proposition.[12] I believe that the independent, unbiased assessments of analysts and credit rating agencies regarding the systems transition "risks" raised by Mr. King are compelling in affirming my testimony and that of Mr. Rozycki regarding

[10] Moody's Investors Service, Global Research Rating Action: Frontier Communications Corporation (May 13, 2009) (attached as Exhibit 2).

[11] Fitch Ratings, Fitch Places Frontier Communications on Rating Watch Positive (May 13, 2009) (attached as Exhibit 3).

[12] In fact, Mr. King's testimony acknowledges that the transaction should reduce risk, as pro forma Frontier will be "considerably less leveraged," will have a greater percentage of equity in its capital structure, will have a materially reduced ratio of net debt to EBITDA and improved other ratios, and will generate increased free cash flow per share of $1.75 (which I note is around 2.3 times our post-closing $0.75 per share dividend). King, p. 12, lines 15-23.

Frontier's ability to avoid the problems encountered in the Hawaiian Telcom and FairPoint transactions.

II. FRONTIER IS FINANCIALLY HEALTHY AND GROWING STRONGER

Q. Can you summarize Mr. King's concerns about Frontier's financial health?

A. Yes. Mr. King's concerns are focused on Frontier Communications Corporation's dividend policy.[13] While it is not clear that the dividend policy of Frontier is within the scope of the Commission's jurisdiction or interest, Mr. King offers his view that Frontier's dividend policy is too generous and that Frontier has a strategy of paying shareholders with long-term debt.[14] He continues that the dividend policy must be changed or Frontier will be unable to raise further capital.[15] Finally, he recommends that the Commission should condition its approval of the Frontier transaction by requiring dividend-related "safeguards" that he indicates are similar to those developed in another merger.[16]

Q. Is Mr. King correct that Frontier's dividend is overly generous?

A. No. Mr. King seems to be confused about the financial markets' requirement of a competitive return on capital and how that return typically is achieved by companies in the ILEC industry. In general, market-based return expectations are

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[13] King, p. 10, line 20.
[14] King, p. 11, lines 5-6.
[15] King, p. 11, lines 15-20.
[16] King, p. 13, lines 18-29.

realized through capital appreciation (i.e., increases in share price) based on some measure of operational / financial growth, combined with direct return of capital to shareholders (i.e., through dividend payments and share repurchases). Because the local telecommunications industry is experiencing no or, at best, minimal growth currently, companies that seek capital in the public equity markets generally must meet a meaningful portion of market-based return expectations by paying competitive levels of dividends. As such, companies such as Frontier evaluate their available cash flows, capital needs, and debt service requirements, and set their dividend payout ratio (which is dividends as a percentage of free cash flow, not as a percentage of net income because as I explain in more detail below, net income is not the appropriate measure for evaluating the payment of dividends) to provide a competitive dividend level while also funding the business and providing some discretionary cash flow "cushion." After evaluating these criteria, Frontier's Board of Directors and management have planned a dividend payout policy for the pro forma combined company (based on an annual dividend of $0.75 per share, down from the $1.00 per share paid to Frontier shareholders pre-transaction) that, in their opinion, will attract sufficient capital to fund (to the extent necessary) investment, operations, and service of other capital. In fact, Frontier's post-transaction proposed dividend payout ratio of 43% including expected cost savings (52% before these savings are achieved) is lower than that of most of other major local telecommunications carriers, including Windstream, Consolidated Communications, and Iowa Telecom, and is even slightly lower than the expected pro forma payout ratio of around 50% for the newly formed CenturyLink (the recently completed combination of CenturyTel and Embarq). The market data regarding typical dividend payouts in the ILEC industry, therefore, are in contrast with Mr. King's assertions of excessive dividend payments by Frontier.

Additionally, the Frontier dividend "yield," which Mr. King reports as a "very high dividend yield"[17] is actually set by the financial markets (not by the company as with the dividend payout ratio) as the stock price rises or falls.[18] Mr. King notes that, based on Frontier's post-transaction dividend level of $0.75 and a share price of $6.90, the company's dividend yield would be "just under 11 percent."[19] As is generally understood, the stock market today is under significant pressure, which has depressed prices across the entire marketplace and therefore has driven all dividend yields to relatively higher levels. So, it is important to consider Frontier's dividend yield in reference to the yields of other comparable companies in today's equity markets. A summary review of these relevant data would have revealed to Mr. King that a post-transaction yield of 11% for Frontier is below the recent yields of comparable companies such as Windstream, Consolidated Communications, and Iowa Telecom, and is only slightly higher

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[17] King, p. 11, lines 1-2.

[18] The dividend yield is calculated by dividing the annual dividend per share by the per share price of a company's stock. Therefore, a company sets its per share dividend level, which then is a fixed numerator, while the market sets the per share price denominator which varies from day-to-day. As the per share price rises (denominator increases), the dividend yield falls, and as the share price falls, the yield rises.

[19] King, p. 10, lines 20-21 through p. 11, line 1.

than the CenturyLink dividend yield.[20] So, the market-based data indicate that Frontier's dividend yield is consistent with comparable companies in its industry. Mr. King is incorrect that the pro forma company will pay dividends that are producing overly generous yields.

Q. Is Mr. King correct when he asserts that Frontier's current strategy is to borrow from debt sources to pay shareholders?

A. Absolutely not. Frontier's strategy is to operate the business in the most effective and efficient manner possible, drawing from internally-generated cash flows (discussed in more detail below) supplemented as necessary by capital markets funding sources so that network investment can occur and operations can be maintained in a manner that best serves the needs of our customers. Frontier must pay the market-determined rates for debt (interest rate) and equity (total return requirement, including dividends, share repurchases and expected share price appreciation) to realize access to those markets. Mr. King is incorrect in his assessments that Frontier has "financed those dividends through long-term borrowings" and that "not a penny of recent borrowing has gone into plant or equipment" but "[i]nstead it has gone to shareholders."[21] To support his contention, Mr. King provides a table of selected financial data that provides at best an incomplete picture of Frontier's funding and investment activities and

[20] For example, at the market close on Friday, July 31, 2009, the dividend yield of Windstream (WIN) was 11.5%, Iowa Telecom (IWA) was 12.9%, Consolidated Communications (CNSL) was 12.4%, and CenturyLink (CTL) was 8.8%

[21] King, p. 10, lines 10-13.

misrepresents the real situation.[22] I have provided the table below with additional funding detail that provides greater insight into Frontier's business activities and rationales in recent years. Mr. King provides in his testimony the data reflected in the Long-term Borrowings line of my table. However, Mr. King failed to present data regarding Frontier's Long-term Debt Payments—a seemingly inexplicable oversight. As this row in my table indicates,[23] our debt payments generally have been consistent with our borrowings, with the borrowings only slightly in excess of repayments. Therefore, as these more complete data regarding our financing activities reveal, Mr. King is simply incorrect when he suggests that Frontier has been "financing" its dividend payments.

($s in 000s)	2005	2006	2007	2008
Borrowings & Repayments				
Long-term Borrowings	-	550,000	950,000	135,000
Long-term Debt Payments	(6,299)	(227,693)	(946,070)	(142,480)
Long-term Debt Balance				
Current Maturities	227,693	39,271	2,448	3,857
Long-term Debt	3,995,130	4,467,086	4,736,897	4,721,685
Total	4,222,823	4,506,357	4,739,345	4,725,542
Change		*283,534*	*232,988*	*(13,803)*

An additional item of note in my table is the fact that Frontier's total debt balance has been relatively consistent from 2005 to 2008. If the company were in

[22] King, p. 10.

[23] The data in the table are derived from Frontier's fourth quarter and yearend press releases for 2006-2008 ("Frontier Communications Reports Solid Fourth-Quarter and Full Year Results for 2008 (Feb. 25, 2009), "Citizens Communications Reports 2007 Fourth-Quarter Results; Announces New Stock Repurchase Program" (Feb. 26, 2008), and "Citizens Communications Reports 2006 Fourth-Quarter Results; Announces New Stock Buyback Program" (Feb. 27, 2007)), which are attached as Exhibit 4 to this testimony.

fact merely borrowing more and more money, with every penny going to shareholders, as Mr. King claims, one would expect material and consistent increases in our total debt levels. The reality is that our total debt has increased by only $500 million (or about 12%) over the four-year period, with the increase principally related to funding acquisitions, not funding payments to shareholders. All of these data indicate that a more thoughtful approach to evaluating Frontier's business activities reveals that it is inaccurate to suggest that Frontier has borrowed solely to fund dividend payments.

Q. Please respond to Mr. King's suggestion that Frontier should not issue dividends in excess of its net income.[24]

A. Mr. King is focusing on net income but the appropriate analysis should evaluate dividend payments in relation to free cash flow. Book net income can contain numerous non-cash entries, like depreciation, amortization, pension expense and income taxes, that make this line item a less than accurate indicator of the actual cash generated by the business. In addition booked net income excludes capital expenditures, a major utilization of cash in the ILEC business. There are better metrics to assess the ability of the business to fund, among other things, capital investment and dividends. Contrary to Mr. King's testimony, Frontier's current financial health is very sound as illustrated in the following table in which I demonstrate that Frontier's free cash flow generation is in excess of its dividend

[24] King, p. 11, lines 9-10.

payments and capital expenditures.[25] To be specific, over the period in the table, Frontier's operations have generated Free Cash Flows that ranged from $493 million to $562 million per year (these cash flows do not include funds from financing activities that were discussed above). It is important to understand that these are cash flows after network investments which, as I noted in my direct testimony, have been sufficient to allow Frontier to provide broadband service availability to over 90% of the households in its very rural national service territory.[26] So, when viewed properly in relation to Free Cash Flow, not in relation to book net income as Mr. King proposes, it is clear that Frontier has pursued a sustainable and conservative dividend policy relative to the industry in which it operates. Again, an objective review of the data demonstrates that Frontier is currently financially healthy and is expected to be stronger still because of this combination.

[25] The data in the table are derived from Frontier's fourth quarter and yearend press releases for 2006-2008 included in Exhibit 4.

[26] Direct Testimony of Daniel McCarthy, p. 18, lines 3-5.

($s in 000s)	2005	2006	2007	2008
FCF Reconciliation				
Net Income	$ 202,375	$ 344,555	$ 214,654	$ 182,660
Plus:				
D&A	520,204	476,487	545,856	561,801
Book Income Tax Exp	75,270	136,479	128,014	106,496
Stock-based Comp	8,427	10,340	9,022	7,788
Less:				
Cash Taxes	(4,711)	(5,365)	(54,407)	(78,878)
Pension Gain	-	-	(14,379)	-
Other Income	(12,979)	(60,271)	15,038	1,594
Gain on Sale of Disc Ops	(1,167)	(71,635)	-	-
Capital Expenditures	(259,448)	(268,806)	(315,793)	(288,264)
Free Cash Flow	**$ 527,971**	**$ 561,784**	**$ 528,005**	**$ 493,197**
Dividends Paid	338,364	323,671	336,025	318,437
Payout Ratio	***64%***	***58%***	***64%***	***65%***

Q. How do you respond to Mr. King when he asserts that the dividend policy must be changed or Frontier will be unable to raise further capital?

A. Mr. King is entirely wrong and, his proposal would create precisely the opposite effect he advocates as his suggestion would raise rather than lower financial risk. Companies must rely on competitively-priced equity (based on total return expectations) to achieve an appropriate capital structure that balances debt and equity. If Frontier's equity value falters because the company is offering insufficient returns, the company will also lose some or all of its ability to access the debt markets, and both debt and equity financing will become more expensive. Mr. King's suggestion that Frontier should undercut its competitive returns on equity by reducing its dividend, which the company can maintain on a conservative basis as demonstrated above, would damage the balance within the capital structure, and, in fact, could put at risk the operations which serve customers.

Q. Please respond to Mr. King's proposal that the Commission should condition its approval on a requirement that dividends cannot be paid if the net income of Frontier Communications of the Carolinas does not meet certain levels.[27]

A. The Commission should reject this unnecessary condition for several reasons. First and foremost, the condition is unnecessary as it could and potentially would create a limitation on Frontier's access to capital. Because the company requires equity to provide support for investment and operating activities (as a back-stop for internally-generated cash flows), "ring-fencing" limitations such as this condition, if applied by all states, would create a financial risk that likely would depress the value of Frontier's stock price, raise concerns among debt-holders, and incent investors to withdraw their capital and devote it to alternative investments. Second, this sort of state-specific or region-specific "ring-fencing" of operations would negate many of the benefits of diverse nationwide operations that serve to bolster and protect individual state operations from weakness in their operations due to regionalized economic, competitive, or other factors. Third, I also believe that such a condition would be anti-competitive as it would raise the cost of capital for Frontier while competitors have no such limitation. The

[27] King, p. 13, lines 18 ff.

perverse effect is that such a condition would not protect consumers, but would create a higher risk as Frontier's cost of capital is raised. The net effect would be to undercut the public interest.

Q. Did the ORS comment on the financial health of the company?

A. The ORS also explains that it reviewed the opinions and reports of the three major credit rating agencies and concluded that "these rating agencies are cautiously optimistic about the proposed transaction."[28] Mr. Rozycki concludes that Frontier meets the financial standards that are necessary for the Commission's approval of this transaction.[29]

Q. Does Mr. King raise any other concerns regarding Frontier's finances that you would like to address?

A. Yes. Mr. King is concerned that Frontier, in order to increase earnings will engage in "a campaign of rate increases."[30] To address this concern, Mr. King recommends that "if Frontier's rates increase by more than 10 percent in a given year, then the Commission should convene a proceeding to consider whether caps should be imposed to limit further rate increases."[31] First, I address Mr. King's concerns regarding rates by reiterating the point that I made in my direct

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[28] ORS, p. 8, lines 9-11.
[29] ORS, p. 5, line 15.
[30] King, p. 14, lines 26-28.
[31] King, p. 15, lines 4-7.

testimony: upon closing of the transaction, wholesale and retail customers will receive services on the same terms and conditions under their existing contracts, agreements, price lists and tariffs. Second it is my understanding the Verizon South's flat-rated local exchanges services for residential and single-line business customers is already subject to inflation-based rate caps and that other tariffed services are subject to a five percent cap under S.C. Code § 58-9-576. Frontier will be assuming these existing regulatory pricing restrictions. Regardless, competition in the marketplace is sufficient to effectively regulate these rates without additional regulatory action. In short, competition will discipline Frontier's pricing policies. I also note that the ORS noted in its testimony that Frontier is not intending to change the rates charged by Verizon."[32] So, on its face, Mr. King's concern regarding Frontier raising customer service rates because of its poor financial position is unfounded.

III. COMMITMENT TO SERVICE QUALITY

Q. Please respond to the concerns raised in Mr. King's testimony regarding service quality?

A. Mr. King notes that Verizon's service quality metrics in South Carolina appear to be superior to Frontier's national metrics, and he raises the concern that Frontier will be unable to maintain Verizon's South Carolina service quality because Frontier management will not be familiar with the Verizon employees and

[32] ORS, p. 6, line 17.

systems. However, Mr. King appears to be missing one of the key points of the structure of this transaction. After the transaction closes, Frontier will have available all or substantially all of the Verizon employees in South Carolina and those employees will continue to operate the systems they use today in providing the high level of service quality that Mr. King highlights. Frontier has no intention of undermining these employees' ability to continue performing at a high level and has indicated that it will employ a decentralized local management structure that empowers local managers based in South Carolina with significant decision-making authority and customer service accountability. As such, Mr. King's concerns regarding a change in the service quality received by South Carolina customers following the transaction is unfounded.

Q. What does Mr. King recommend regarding service quality metrics?

A. Mr. King proposes a set of service quality metrics that are stricter than those in effect for other carriers in South Carolina. This is despite the fact, as I understand it, that Verizon is generally meeting the existing South Carolina service quality standards. Frontier has no intent to take any action that will denigrate the level of service currently provided by Verizon in South Carolina. In fact, Frontier is committed to excellence in service to meet the needs of its customers and to meet or exceed the Commission's existing service quality standards. There is no reason to alter the current standards, especially in a market where competition from wireless and cable operators is creating greater market-based discipline. In addition, the Commission already requires significant service quality reporting, which Frontier will comply with after the closing of the proposed transaction. Mr. Rozycki correctly explains "Frontier will be required to make service reports to ORS under 26 S.C. Code Ann. Regs. 103-618 and 103-619" and must be willing to resolve quality of service issues promptly.[33] As a result the Commission will have sufficient information to identify and address any service quality issues that may arise. Any applications of additional service quality requirements that apply solely to Frontier beyond the existing reporting obligations applicable to other carriers are unnecessarily burdensome and will place the company at a disadvantage in a competitive operating environment.

Q. Did the ORS review affordable services and service quality?

A. Yes. Mr. Rozycki concluded that Frontier will not harm the public interest, and may "positively impact the public interest in [the Frontier] service areas and in South Carolina through infrastructure investment."[34]

Q. Does the ORS find other potential benefits that likely are to result from the transaction?

A. Yes. Mr. Rozycki focuses on potential broadband benefits, as Frontier is committed to serve lower-density regions compared with the areas on which

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[33] ORS, p. 11, lines 11-15.

[34] ORS, p. 7, lines 8-10.

Verizon might be focused.[35] Mr. Rozycki also recognizes the potential positive service impact of Frontier's broadband expansion in South Carolina by explaining that "[e]nhancing networks for broadband delivery will likely improve the quality of service that telecommunications users experience."[36] Increasing broadband availability in South Carolina will be a business imperative for Frontier both to provide an added revenue source and to stem the rate of line losses to competitors. Frontier has a strong record of deploying broadband in its existing service markets and believes that through a combination of investment and high-quality customer service, it can increase broadband availability in South Carolina over time. The ORS has also appropriately recognized that broadband expansion may result in an increasing range of services in South Carolina.[37]

Q. What is Mr. King's concern with respect to whether Frontier will honor Verizon's obligations to serve retail and wholesale customers?

A. I do not understand Mr. King's concerns for two reasons. First, as Mr. King acknowledges early in his testimony, Verizon Business will continue to provide telecommunications services to Shaw Air Force Base after the Transaction. (The services Verizon provides to the base are described in more detail in Mr. McCallion's Rebuttal Testimony.) [38] Accordingly, Mr. King acknowledges that

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[35] ORS, p. 8, lines 15-17.
[36] ORS, p. 9, lines 8-9.
[37] ORS, p. 9, lines 9-12.
[38] King, p. 2, fn1.

Verizon will continue to honor and provide service to Shaw Air Force Base after transaction closes. Second, under the Merger Agreement and Distribution Agreements executed by Frontier and Verizon, Frontier is obligated legally to honor the obligations of Verizon upon closing of the transaction. In addition, Frontier has stated that it will assume or honor all obligations under Verizon's agreements, tariffs, and other existing customer arrangements that are not being retained by Verizon. There is no legal or factual basis for Mr. King's suggestion that Frontier will not honor Verizon's service obligations with respect to retail and wholesale customers in South Carolina.

Q. Do you agree with the conditions which the ORS recommended to protect retail and wholesale customers?

A. Yes. The conditions proposed by Mr. Rozycki appear reasonable and consistent with the requirements the Commission has imposed on local exchange carriers in the past. Frontier has a record of success in serving more than 2 million customers and the managerial, technical and financial capability to successfully operate the Verizon exchanges in South Carolina. The ORS recommends requirements that Frontier meet its responsibilities to be: (1) a carrier of last resort and an eligible telecommunications carrier in South Carolina; (2) a carrier that complies with the existing requirements established in the South Carolina Universal Service Fund and Interim LEC Fund; (3) a carrier that abides by the reporting requirements of South Carolina and the gross receipts assessments of the state; and (4) a carrier that complies with the requirements for service reporting set forth in 26 S.C. Code Ann. Regs.103-618 and 103-619. Frontier believes that these conditions provide continuity with the obligations of a local exchange carrier in South Carolina, and provide the state with appropriate protections in light of the opportunities and risks that have been identified in this transaction. Frontier concurs with the recommendations of Mr. Rozycki and urges the Commission to reject to the unnecessary and potentially harmful conditions proposed by Mr. King.

Q. Does this conclude your rebuttal testimony?

A. Yes, it does.

Frontier Communications Corp.

(FTR:NYSE) **Outperform 2**

EQUITY RESEARCH

June 12, 2009

Telecommunications Services
Company Brief

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Headquartered in Stamford, Connecticut, Frontier Communications Corp. (formerly Citizens Communications) was founded in 1935 and provides local, long-distance, data, and Internet services in the northeastern, central, and western U.S., with more than two million access lines and over 500,000 xDSL customers.

Current Price	$7.08 (6/11/2009)				10-day ADV	3,444,530
52-Week Range	$12.94-$5.32				Div. Yield	14.1%
Mkt. Cap (mil.)	$2193				BV (03/09)	$1.59
Non-GAAP EPS:						
FY=Dec	2008A	$0.57	P/E Ratios (Non-GAAP)		Suitability	TR
	2009E	0.57	2009E	12.4x	Debt/Total Cap.	67%
	2010E	0.69	2010E	10.3x	ROE	35%

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FTR: Notes from the Road

Wednesday, we had Frontier CFO Don Shassian on the road in Boston. The story continues to focus on the strong free cash flow generation of the company and the previously announced acquisition of Verizon access lines.

We believe the current yield is attractive at the current price, offering investors a 14% coupon for the upcoming year, which will drop to an attractive 10% coupon following the close of the Verizon (VZ/$29.75/Market Perform) properties; however, we note the 10% yield will be on a company with a significantly lower payout ratio of approximately ~43% after synergies and much less leverage, ~2.2x debt/EBITDA post synergies (from its current 3.8x).

Investors remained concerned over similarities with FairPoint (FRP/$1.21), which we believe have little bearing on the outcome of Frontier's reverse morris trust transaction. Although both deals occur via the same tax-free spinout process with Verizon, we do not expect any major obstacles to prevent a relatively smooth merger and integration.

We note several significant differences between the two transactions: Frontier is de-levering (not re-levering) significantly through the transaction, should be solidly in investment grade range, is proactively cutting its dividend, and plans on driving broadband penetration and availability much higher than current levels, (Verizon properties have 60% availability, Frontier's have 92%), all of which regulators like to see. In addition, we believe Frontier is in a position of strength, as it does not face any financial burdens like FairPoint did that would force it to take burdensome concessions. Lastly, Frontier will acquire GTE's entire legacy IT systems in 13 of the 14 states, giving it the ability to run parallel systems for all products in those 13 states. This is different from a forced cutover or new systems development, which actually requires a hastened time frame and can be fraught with peril. Effectively, these are stand-alone systems with a general manager overseeing them and won't require any new systems development on the part of Frontier until management is ready to move them over.

Overall, we believe Frontier is making a prudent acquisition, which will expand its scale, lower its leverage, and improve its dividend sustainability, thus rewarding patient investors over time. However, absent any meaningful near-term catalysts on the horizon, we believe shareholder returns will likely be limited to the attractive 14% dividend yield, with potential upside coming from approval momentum next year.

Please read disclosure/risk information on page 2 and Analyst Certification on page 4.

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Global Credit Research
Rating Action
13 MAY 2009

Moody's Investors Service

Rating Action: Frontier Communications Corporation

Moody's: Frontier's ratings on review for possible upgrade; Verizon - NW, North and WV on review for possible downgrade

New York, May 13, 2009 -- Moody's Investors Service has placed the debt ratings of Frontier Communications Corporation ("Frontier") on review for possible upgrade, following the announcement that it plans to merge with a company to be spun out of Verizon Communications' northern and western operations (VZ-Spinco) in a reverse Morris Trust transaction, valued at $8.6 billion in cash and stock, where by Verizon shareholders will own between 66% and 71% of the post-merger entity. However, Moody's believes the change of control provisions in Frontier's debt are unlikely to be triggered and Moody's expects the existing Frontier debt to stay in place.

As part of the transaction, VZ-Spinco will issue approximately $3 billion of new debt, while it is anticipated that $250 million of existing debt at the Verizon entities to be acquired will remain in place post-merger, although the amount may be up to $425 million, depending on the final timing of the merger closing. As a result Moody's has also placed the A3 senior unsecured debt ratings of Verizon - Northwest, North, and West Virginia on review for a possible downgrade, as it is unlikely that the post-merger entity will be rated at that level.

The ratings actions incude:

On Review for Possible Downgrade:

..Issuer: Verizon North Inc.

....Senior Unsecured Regular Bond/Debenture, currently A3

..Issuer: Verizon Northwest Inc.

....Senior Unsecured Regular Bond/Debenture, currently A3

..Issuer: Verizon West Virginia, Inc.

....Senior Unsecured Regular Bond/Debenture, currently A3

On Review for Possible Upgrade:

..Issuer: Frontier Communications Corporation

....Corporate Family Rating, currently Ba2

....Probability of Default Rating, currently Ba2

....Senior Unsecured Bank Credit Facility, currently Ba2 LGD4-53%

....Senior Unsecured Regular Bond/Debenture, currently Ba2 LGD4-53%

....Senior Unsecured Shelf, currently (P)Ba2

Outlook Actions:

..Issuer: Frontier Communications Corporation

....Outlook, Changed To Rating Under Review From Stable

..Issuer: Verizon North Inc.

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....Outlook, Changed To Rating Under Review From Negative

..Issuer: Verizon Northwest Inc.

....Outlook, Changed To Rating Under Review From Negative

..Issuer: Verizon West Virginia, Inc.

....Outlook, Changed To Rating Under Review From Negative

Frontier expects to generate significant expense savings from the merger, initially estimated at about $500 million annually. Non-recurring integration costs will likely be in the $200 million range, while the company is likely to ramp up capital expenditures during the first years of integration in order to increase VZ-Spinco properties' high speed data addressability. Frontier's current high speed data availability is approximately 90%. The merger will produce a company with operations in 27 states serving over 7 million access lines. The increase in scale is expected to bolster Frontier's overall competitive position and increase operational and capital efficiencies, especially those related to network modernization and new product development. However, the challenge to Frontier of integrating a company more than twice its size is substantial and will be an additional and significant focus of Moody's review of the ratings.

Frontier believes that the operating systems transition in this situation will be easier than in some recent Verizon asset sales, as only the West Virginia operations, which represent about 13% of the VZ-Spinco lines, will require a systems conversion at closing. For the remaining lines, VZ-Spinco will be operating under independent management and operating systems prior to the merger effectiveness and will not require a timed cutover, which is expected to materially reduce the transition issues that other carriers have experienced.

The transaction is expected to result in significant deleveraging at Frontier, leading to a potentially improved credit profile. The combined pro forma 2008 Debt/EBITDA would be 2.6x, while its dividend would be cut by 25% due to a $0.25 annual per share dividend reduction effective after closing of the transaction. Frontier has stated its intent to achieve investment grade financial metrics following the merger. Moody's will assess management's commitment and ability to maintain an investment grade credit profile for the combined company in light of the intense competitive challenges confronting the sector and the resulting pressures to achieve the targeted cost savings.

Before the transaction can close, numerous regulatory approvals, including those of several state Public Utility Commissions, are required. Conditions that may be imposed by some of these states' regulatory authorities could have a material impact on the combined entities' future operating performance and financial profile. In addition, the Obama administration and Federal Communication Commission could potentially put forth comprehensive reforms of intercarrier compensation and universal service rules. Changes to the current structure of these and other regulatory frameworks could also have an impact on the combined company's future operating and financial performance and will also be a focus of Moody's review.

Moody's most recent rating action for Frontier was on April 3, 2009, at which time Moody's assigned a Ba2 rating to the company's new note issuance.

Moody's most recent rating action for Verizon - Northwest, North, and West Virginia Frontier was on October 28, 2008, at which time Moody's confirmed the issuers' A3 senior unsecured rating and placed a negative outlook on the debt ratings.

The principal methodology used in rating Frontier and Verizon - was Moody's Global Telecommunications Industry rating methodology, which can be found at www.moodys.com in the Credit Policy & Methodologies directory, in the Ratings Methodologies sub-directory (December 2007, document #106465). Other methodologies and factors that may have been considered in the process of rating these issuers can also be found in the Credit Policy & Methodologies directory.

Pro-forma for the transaction, Frontier, headquartered in Stamford, CT, will become the fifth largest wireline telecommunications company in the US, serving over 7 million access lines in primarily rural areas and small- and medium-sized cities. Verizon Communications is headquartered in Basking Ridge, NJ.

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Fitch Ratings
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FITCH PLACES FRONTIER COMMUNICATIONS ON RATING WATCH POSITIVE

Fitch Ratings-Chicago-13 May 2009: Fitch Ratings has placed Frontier Communications Corporation's (Frontier) (NYSE: FTR) Issuer Default Rating (IDR) of 'BB' and its securities on Rating Watch Positive owing to its proposed transaction with Verizon Communications Inc. (Verizon) (NYSE: VZ).

In the transaction, Verizon will spin-off local exchange assets in 14 states, consisting of approximately 4.8 million access lines, into a separate company which will then merge with Frontier in a tax-free transaction to create a large local exchange company. The company to be merged into Frontier will be moderately levered, and post-merger Frontier is expected be less levered than currently. As a result, Frontier's 'BB' IDR and other ratings have been placed on Rating Watch Positive.

The transaction values the company that will be merged into Frontier (Spinco) at approximately $8.6 billion, consisting of approximately $5.3 billion in equity and $3.3 billion of debt. Verizon shareholders will receive $5.3 billion in Frontier equity in the merger, and there is a share price collar of $7.00 to $8.50 on Frontier's common stock price. The transaction is subject to customary regulatory approvals, the approval of Frontier's shareholders, and the obtaining of financing.

Fitch will evaluate Frontier's prospective financial performance as well as its anticipated capital structure in determining Frontier's ratings. Fitch believes there is execution risk regarding Frontier's integration of the former Verizon operations into its own. Fitch believes the execution risk is offset to some extent by Frontier's significant experience in integrating large transactions and the scalability of is existing systems. Fitch will evaluate Frontier's capability to mitigate such risks.

Fitch places the following ratings on Rating Watch Positive:

Frontier Communications Corporation:
--IDR 'BB';
--Senior unsecured $250 million credit facility due May 18, 2012 'BB';
--Senior unsecured $148.5 million senior unsecured term loan due Dec. 31, 2012;
--Senior unsecured notes and debentures 'BB'.

Industrial development revenue bonds (IDRBs) 'BB' as follows:
--Maricopa County Industrial Development Authority (AZ) IDRB series 1995.

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Communications

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Press Release

Citizens Communications Reports 2006 Fourth-Quarter Results; Announces New Stock Buyback Program

STAMFORD, Conn.--(BUSINESS WIRE)--Feb. 27, 2007--Citizens Communications (NYSE:CZN) today reported fourth quarter 2006 revenues of $504.4 million, operating income of $157.0 million, and net income of $63.9 million.

Fourth quarter 2006 revenue was $504.4 million, as compared to $517.4 million in the fourth quarter of 2005. We experienced 13.5 percent growth in data and internet services revenue in the fourth quarter of 2006, compared to the fourth quarter of 2005. Revenues were lower in the fourth quarter of 2006 as compared to 2005 due to declines in access service revenues (which include subsidy payments we receive from federal and state agencies) and local, long distance and equipment sales. The fourth quarter of 2005 included approximately $10.0 million of subsidy revenue recorded during that quarter in access service revenues, arising from a missed filing deadline with the Universal Service Fund (USF) in the third quarter of 2005.

Other operating expenses for the fourth quarter of 2006 decreased by approximately $7.9 million or 4.3 percent, as compared to the fourth quarter of 2005 primarily driven by reductions in employees and improved expense control in benefit costs.

Depreciation and amortization expense for the fourth quarter of 2006 decreased $6.8 million or 5.4 percent as compared to the fourth quarter of 2005. The decrease is primarily due to a declining net asset base.

The company added approximately 19,700 high-speed internet customers during the quarter and had more than 393,000 high-speed data subscribers at December 31, 2006. The number of the company's high-speed internet subscribers has increased by more than 75,000 or 23.6 percent since the beginning of 2006.

Operating income for the fourth quarter of 2006 was $157.0 million and operating income margin was 31.1 percent, compared to $165.3 million and 31.9 percent in the fourth quarter of 2005. Capital expenditures were $105.5 million for the fourth quarter of 2006 and $268.8 million for the year.

Free cash flow for the fourth quarter was $91.7 million and $539.6 million for the full year. The company's dividend represents a payout of 60 percent of free cash flow for the year.

"We delivered a strong fourth quarter capping a year of solid results for 2006. Product revenue growth coupled with disciplined expense control generated a 54.5% operating cash flow margin for the quarter and a 55.3% operating cash flow margin for the year," said Maggie Wilderotter, Chairman and CEO of Citizens. "Our innovative Q4 promotions drove penetration levels for all voice, data and video product bundles."

The company's Board of Directors has authorized a new share repurchase program. Under the new program, up to $250 million of common stock may be repurchased over the next 12 months. The new stock repurchase program could result in the repurchase of up to 5 percent of the company's common stock.

The Company expects to spend between $270 million and $280 million in capital expenditures in 2007. Our free cash flow for 2007 is estimated to be between $425 million and $450 million. Both of these 2007 estimates exclude the impact of the pending acquisition of Commonwealth Telephone Enterprises.

The company's next regular quarterly cash dividend of $0.25 per share will be paid on March 30, 2007 to shareholders of record on March 9, 2007. The company expects that dividends paid to stockholders in 2007 will be treated as dividends for federal income tax purposes. Shareholders are encouraged to consult with their tax advisors.

The company uses certain non-GAAP financial measures in evaluating its performance. These include free cash flow and operating cash flow. A reconciliation of the differences between free cash flow and operating cash flow and the most comparable financial measure calculated and presented in accordance with GAAP is included in the tables that follow. The non-GAAP financial measures are by definition not measures of financial performance under generally accepted accounting principles and are not alternatives to operating income or net income reflected in the statement of operations or to cash flow as reflected in the statement of cash flows and are not necessarily indicative of cash available to fund all cash flow needs. The non-GAAP financial measures used by the company may not be comparable to similarly titled measures of other companies.

The company believes that presentation of non-GAAP financial measures provides useful information to investors regarding the company's financial condition and results of operations because these measures, when used in conjunction with related GAAP financial measures, (i) together provide a more comprehensive view of the company's core operations and ability to generate cash flow, (ii) provide investors with the financial analytical framework upon which management bases financial, operational, compensation and planning decisions, and (iii) presents measurements that investors and rating agencies have indicated to management are useful to them in assessing the company and its results of operations. Management uses these non-GAAP financial measures to plan and measure the performance of its core operations and its divisions' measure performance and report to management based upon these measures. In addition, the company believes that free cash flow and operating cash flow, as the company defines them, can assist in comparing performance from period to period, without taking into account factors affecting cash flow reflected in the statement of cash flows, including changes in working capital and the timing of purchases and payments.

Management uses these non-GAAP financial measures to (i) assist in analyzing the company's underlying financial performance from period to period, (ii) evaluate the financial performance of its business units, (iii) analyze and evaluate strategic and operational decisions, (iv) establish criteria for compensation decisions, and (v) assist management in understanding the company's ability to generate cash flow and, as a result, to plan for future capital and operational decisions. Management uses these non-GAAP financial measures in conjunction with related GAAP financial measures. The company believes that the non-GAAP financial measures are meaningful and useful for the reasons outlined above.

While the company utilizes these non-GAAP financial measures in managing and analyzing its business and financial condition and believes they are useful to management and to investors for the reasons described above, these non-GAAP financial measures have certain shortcomings. In particular, free cash flow does not represent the residual cash flow available for discretionary expenditures, since items such as debt repayments and dividends are not deducted in determining such measure. Operating cash flow has similar shortcomings as interest, income taxes, capital expenditures, debt repayments and dividends are not deducted in determining this measure. Management compensates for the shortcomings of these measures by utilizing them in conjunction with their comparable GAAP financial measures. The information in this press release should be read in conjunction with the financial statements and footnotes contained in our documents filed with the U.S. Securities and Exchange Commission.

About Citizens Communications

More information about Citizens can be found at www.czn.net.

This press release contains forward-looking statements that are made pursuant to the safe harbor provisions of The Private Securities Litigation Reform Act of 1995. These statements are made on the basis of management's views and assumptions regarding future events and business performance. Words such as "believe," "anticipate," "expect," and similar expressions are intended to identify forward-looking statements. Forward-looking statements (including oral representations) involve risks and uncertainties that may cause actual results to differ materially from any future results, performance or achievements expressed or implied by such statements. These risks and uncertainties are based on a number of factors, including but not limited to: our ability to complete the acquisition of Commonwealth Telephone Enterprises, Inc., to successfully integrate their operations and to realize the synergies from the acquisition; our ability to refinance the bridge loan that will be used to finance the cash portion of the merger consideration with long-term debt; our ability to effectively manage our operations, costs and capital spending; our ability to successfully introduce new product offerings, including bundled service packages; our ability to sell enhanced services; our ability to comply with federal and state regulations; changes in the number of our revenue generating units; general and local economic and employment conditions; the effects of ongoing changes in the regulation of the communications industry; overall changes in the telecommunications market; and greater than anticipated competition from wireless or wireline carriers. These and other uncertainties related to our business are described in greater detail in our filings with the Securities and Exchange Commission, including our reports on Forms 10-K and 10-Q and the foregoing information should be read in conjunction with these filings. We do not intend to update or revise these forward-looking statements to reflect the occurrence of future events or circumstances.

Citizens Communications Company
Consolidated Financial Data (1)
(unaudited)

(Amounts in thousands - except per-share amounts)	For the quarter ended December 31, 2006	2005	% Change
Income Statement Data			
Revenue	$504,396	$517,363	-3%
Cost of services (exclusive of depreciation and amortization)	49,836	40,224	24%
Other operating expenses	177,284	185,154	-4%
Stock based compensation	2,380	1,994	19%
Depreciation and amortization	117,923	124,705	-5%
Operating income	156,973	165,286	-5%
Investment and other income (loss), net	14,070	2,419	482%
Interest expense (includes interest on convertible debt)	83,526	85,726	-3%
Income tax expense	23,576	10,215	131%
Income (loss) from discontinued operations, net of tax(2)	(30)	5,017	-101%
Net income attributable to common shareholders	63,911	76,781	-17%
Weighted average shares outstanding	320,774	331,180	-3%
Basic net income per share attributable to common shareholders(3)	$0.20	$0.23	-13%
Other Financial Data			
Capital expenditures	$105,450	$93,081	13%
Free cash flow (4)	91,679	115,719	-21%
Dividends paid	80,556	83,037	-3%
Dividends payout ratio (5)	88%	72%	22%

(Amounts in thousands - except per-share amounts)	For the year ended December 31, 2006	2005	% Change
Income Statement Data			
Revenue	$2,025,367	$2,017,041	0%
Cost of services (exclusive of depreciation and amortization)	171,247	156,822	9%

Other operating expenses	722,803	742,620	-3%
Stock based compensation	10,340	8,427	23%
Depreciation and amortization	476,487	520,204	-8%
Operating income	644,490	588,968	9%
Investment and other income (loss), net	82,443	12,979	535%
Interest expense (includes interest on convertible debt)	336,446	338,735	-1%
Income tax expense	136,479	75,270	81%
Income (loss) from discontinued operations, net of tax(2)	90,547	14,433	527%
Net income attributable to common shareholders	344,555	202,375	70%
Weighted average shares outstanding	322,641	337,065	-4%
Basic net income per share attributable to common shareholders(3)	$1.07	$0.60	78%
Other Financial Data			
Capital expenditures	$268,806	$259,448	4%
Free cash flow (4)	539,612	527,971	2%
Dividends paid	323,671	338,364	-4%
Dividends payout ratio (5)	60%	64%	-6%

(1) In February 2006, we entered into a definitive agreement to sell Electric Lightwave, LLC (ELI), our competitive local exchange carrier business. ELI was sold on July 31, 2006. Additionally, our conferencing business was sold on March 15, 2005. Prior periods have been restated to present ELI and our conferencing business as discontinued operations and to reflect the consolidation of Mohave Cellular Limited Partnership in accordance with EITF No. 04-5.

(2) For the year ended December 31, 2006, income from discontinued operations includes ELI's after-tax gain of approximately $71.6 million.

(3) Calculated based on weighted average shares outstanding.

(4) A reconciliation to the most comparable GAAP measure is presented at the end of these tables.

(5) Represents dividends paid divided by free cash flow.

Citizens Communications Company
Financial and Operating Data (1)
(unaudited)

(Amounts in thousands, except operating data)	For the quarter ended December 31, 2006	2005	% Change
TELECOMMUNICATIONS			

Select Income Statement Data			
Revenue			
Local services	$199,729	$205,405	-3%
Data and internet services (3)	111,378	98,127	14%
Access services (2) (3)	107,147	118,123	-9%
Long distance services	36,493	40,406	-10%
Directory services	28,423	28,225	1%
Other	21,226	27,077	-22%
Total revenue	504,396	517,363	-3%
Expenses			
Network access expense	49,836	40,224	24%
Other operating expenses	177,284	185,154	-4%
Stock based compensation	2,380	1,994	19%
Depreciation and amortization	117,923	124,705	-5%
Total expenses	347,423	352,077	-1%
Operating Income	$156,973	$165,286	-5%
Other Financial and Operating Data			
Access lines (4)	2,126,574	2,237,539	-5%
High-speed internet subscribers (4)	393,184	318,096	24%
Switched access minutes of use (in millions)	2,434	2,705	-10%
Average monthly revenue per average access line (4)	$78.49	$76.61	2%

(Amounts in thousands, except operating data)	For the year ended December 31, 2006	2005	% Change
TELECOMMUNICATIONS			
Select Income Statement Data			
Revenue			
Local services	$809,584	$829,685	-2%
Data and internet services (3)	424,209	365,613	16%
Access services (2) (3)	427,959	431,339	-1%
Long distance services	153,272	169,496	-10%
Directory services	114,138	113,092	1%
Other	96,205	107,816	-11%
Total revenue	2,025,367	2,017,041	0%
Expenses			
Network access expense	171,247	156,822	9%
Other operating expenses	722,803	742,620	-3%
Stock based compensation	10,340	8,427	23%
Depreciation and amortization	476,487	520,204	-8%
Total expenses	1,380,877	1,428,073	-3%
Operating Income	$644,490	$588,968	9%

Other Financial and Operating Data			
Access lines (4)	2,126,574	2,237,539	-5%
High-speed internet subscribers (4)	393,184	318,096	24%
Switched access minutes of use (in millions)	10,227	11,225	-9%
Average monthly revenue per average access line (4)	$77.25	$73.40	5%

(1) See footnote (1) on the first page.

(2) For the quarter ended December 31, 2005, access services included approximately $10.0 million of USF subsidy revenue received in that period due to a late filing.

(3) See attached schedule for reconciliation of the revenue reclassification of special access revenue from Access services to Data and internet services.

(4) Prior year data has been restated to conform to current period presentation.

Citizens Communications Company
Condensed Consolidated Balance Sheet Data (1)

(Amounts in thousands)

	December 31, 2006	December 31, 2005
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,041,106	$ 263,749
Accounts receivable and other current assets	231,887	243,270
Assets of discontinued operations	-	162,716
Total current assets	1,272,993	669,735
Property, plant and equipment, net	2,983,504	3,058,312
Other long-term assets	2,534,708	2,699,520
Total assets	$ 6,791,205	$ 6,427,567
LIABILITIES AND EQUITY		
Current liabilities:		
Long-term debt due within one year	$ 39,271	$ 227,693
Accounts payable and other current liabilities	386,372	367,800
Liabilities of discontinued operations	-	46,266
Total current liabilities	425,643	641,759

Deferred income taxes and other liabilities	846,775	748,869
Long-term debt	4,460,755	3,995,130
Stockholders' equity	1,058,032	1,041,809
Total liabilities and equity	$ 6,791,205	$ 6,427,567

(1) See footnote (1) on the first page.

Citizens Communications Company
Condensed Consolidated Cash Flow Data (1)
(unaudited)

(Amounts in thousands)

	For the year ended December 31,	
	2006	2005
Cash flows provided by (used in) operating activities:		
Net income	$ 344,555	$ 202,375
Deduct: Gain on sale of discontinued operations	(71,635)	(1,167)
Income from discontinued operations	(18,912)	(13,266)
Adjustments to reconcile income to net cash provided by operating activities:		
Depreciation and amortization expense	476,487	520,204
Gain on expiration/settlement of customer advances	(3,539)	(681)
Loss on debt exchange	2,420	3,175
Stock based compensation	10,340	8,427
Other	89,467	100,101
Net cash provided by continuing operating activities	829,183	819,168
Cash flows from investing activities:		
Proceeds from sales of assets, net of selling expenses	-	24,195
Proceeds from sale of discontinued operations	255,305	43,565
Securities sold	-	1,112
Capital expenditures	(268,806)	(259,448)
Other assets (purchased) distributions received, net	67,050	(139)
Net cash provided (used) by investing activities	53,549	(190,715)
Cash flows from financing activities:		
Long-term debt borrowings	550,000	-
Debt issuance costs	(6,948)	-

Long-term debt payments	(227,693)	(6,299)
Issuance of common stock	27,200	47,550
Dividends paid	(323,671)	(338,364)
Shares repurchased	(135,239)	(250,000)
Other	(264)	(1,662)
Net cash used by financing activities	(116,615)	(548,775)
Cash flows of discontinued operations:		
Operating activities	17,833	27,500
Investing activities	(6,593)	(11,388)
Financing activities	-	(134)
Net cash provided by discontinued operations	11,240	15,978
Increase in cash and cash equivalents	777,357	95,656
Cash and cash equivalents at January 1,	263,749	168,093
Cash and cash equivalents at December 31,	$1,041,106	$ 263,749
Cash paid during the period for:		
Interest	$ 332,204	$ 318,638
Income taxes	$ 5,365	$ 4,711

(1)See footnote (1) on the first page.

Schedule A

Reconciliation of Non-GAAP Financial Measures (1)

	For the quarter ended December 31,		For the year ended December 31,	
(Amounts in thousands)	2006	2005	2006	2005
Net Income to Free Cash Flow ; Net Cash Provided by Operating Activities				
Net income	$63,911	$76,781	$344,555	$202,375
Add back:				
Depreciation and amortization	117,923	124,705	476,487	520,204
Income tax expense	23,576	10,215	136,479	75,270
Stock based compensation	2,380	1,994	10,340	8,427
Subtract:				
Cash paid (refunded) for				

income taxes	(2,965)	2,476	5,365	4,711
Investment and other income (loss), net	14,070	2,419	82,443	12,979
Capital expenditures	105,450	93,081	268,806	259,448
Gain (loss) on sale of discontinued operations	(444)	-	71,635	1,167
Free cash flow	91,679	115,719	539,612	527,971
Add back:				
Deferred income taxes	28,138	45,535	132,031	100,636
Noncash (gains)/losses, net	2,057	9,690	(948)	20,282
Investment and other income (loss), net	14,070	2,419	21,015	12,979
Cash paid (refunded) for income taxes	(2,965)	2,476	5,365	4,711
Capital expenditures	105,450	93,081	268,806	259,448
Subtract:				
Changes in current assets and liabilities	(42,912)	20,820	(10,121)	23,162
Income tax expense	23,576	10,215	136,479	75,270
Stock based compensation	2,380	1,994	10,340	8,427
Net cash provided by operating activities	$255,385	$235,891	$829,183	$819,168

(1) See footnote (1) on the first page.

Schedule B

Reconciliation of Non-GAAP Financial Measures (1)

	For the quarter ended December 31,		For the year ended December 31,	
(Amounts in thousands)	2006	2005	2006	2005

Operating Cash Flow and

Operating Cash Flow Margin				
Operating Income	$156,973	$165,286	$644,490	$588,968
Add back:				
Depreciation and amortization	117,923	124,705	476,487	520,204
Operating cash flow	$274,896	$289,991	$1,120,977	$1,109,172
Revenue(2)	$504,396	$517,363	$2,025,367	$2,017,041
Operating income margin (Operating income divided by revenue)	31.1%	31.9%	31.8%	29.2%
Operating cash flow margin (Operating cash flow divided by revenue)	54.5%	56.1%	55.3%	55.0%

(1) See footnote (1) on the first page.
(2) For the quarter ended December 31, 2005, revenue included approximately $10.0 million of USF subsidy revenue received in that period due to a late filing.

Schedule C

Revenue Reclassification

During the fourth quarter of 2006, the Company changed its classification of certain revenues. Previously, non-switched or special access revenue (which is primarily comprised of DS-1s and DS-3s), was classified in Access Revenues. The Company has determined that this revenue is more appropriately classified in Data and Internet Services. Giving effect to this change, Access Revenues is now comprised of switched access and subsidies. Prior year data has been reclassified and is presented below for comparative purposes.

For the quarter ended

2006	March 31,	June 30,	September 30,	December 31,	Total Year
Access Services:					
As previously reported	$160,968	$153,581	$154,838		
Reclassification of special access to data and internet services	(49,731)	(48,971)	(49,873)		
As currently reported	$111,237	$104,610	$104,965	$107,147	$ 427,959
Data and Internet Services:					
As previously reported	$ 50,358	$ 54,488	$ 59,410		
Reclassification of special access from access services	49,731	48,971	49,873		
As currently reported	$100,089	$103,459	$109,283	$111,378	$ 424,209

2005					
Access Services:					
As previously reported	$156,824	$151,654	$145,417	$168,031	$ 621,926
Reclassification of special access to data and internet services	(45,948)	(47,612)	(47,119)	(49,908)	(190,587)
As currently reported	$110,876	$104,042	$ 98,298	$118,123	$ 431,339
Data and Internet Services:					
As previously reported	$ 38,609	$ 42,392	$ 45,806	$ 48,219	$ 175,026
Reclassification of special access from					

access services	45,948	47,612	47,119	49,908	190,587
As currently reported	$ 84,557	$ 90,004	$ 92,925	$ 98,127	$ 365,613

Schedule D

Citizens Communications Company
Operating Metrics

In the fourth quarter of 2006 the Company revised its reporting of certain operating metrics to be consistent with those used by management to run the business. Prior year data being reported is consistent with that used by management internally on a daily basis and is presented below for comparative purposes.

	2004	2005			
	December 31,	March 31,	June 30,	September 30,	December 31,
Access Lines					
Previously disclosed	2,320,772	2,298,510	2,275,465	2,245,088	2,218,570
Revised	2,336,423	2,316,535	2,295,267	2,265,247	2,237,539
Change	15,651	18,025	19,802	20,159	18,969
High Speed Internet Customers					
Previously disclosed	212,277	242,768	267,270	290,228	311,416
Revised	220,313	250,477	274,333	297,751	318,096
Change	8,036	7,709	7,063	7,523	6,680

	2006			
	March 31,	June 30,	September 30,	December 31,
Access Lines				
Previously disclosed	2,192,265	2,162,712	2,132,868	
Revised	2,213,731	2,188,901	2,158,001	2,126,574

Change	21,466	26,189	25,133	
High Speed Internet Customers				
Previously disclosed	330,832	350,411	362,698	
Revised	341,452	358,851	373,489	393,184
Change	10,620	8,440	10,791	

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Press Release

Citizens Communications Reports 2007 Fourth-Quarter Results; Announces New Stock Repurchase Program

-- Revenue up 14% year over year -- Continued strong operating income and cash flow margins -- 2007 free cash flow of $528 million -- Year-to-date dividend payout ratio of 64% -- 22,400 high speed internet additions -- Global Valley acquisition completed (15,300 access lines) -- $200 million stock repurchase program announced

STAMFORD, Conn., Feb 26, 2008 (BUSINESS WIRE) -- Citizens Communications (NYSE:CZN) today reported fourth quarter 2007 revenue of $577.2 million, operating income of $174.9 million, and net income of $59.0 million.

"We delivered another quarter of strong financial and operating results," said Maggie Wilderotter, Chairman and CEO of Citizens. "Continued customer product revenue growth along with disciplined expense control, realized synergies on our Commonwealth acquisition and other expense reduction initiatives generated a 55.4 percent operating cash flow margin. Our penetration levels increased on all bundled products as our fourth quarter promotions drove residential high speed penetration to 32 percent and high speed revenues continue to be over $40.00 per customer per month. Our wireless data roll-out is now up and running in 13 municipalities, four colleges and universities and over 50 hot spots in our territory. Finally, our integration of Global Valley Networks is well underway."

Revenue for the fourth quarter of 2007 was $577.2 million, as compared to $504.4 million in the fourth quarter of 2006, a 14 percent increase. The fourth quarter 2007 increase of $72.8 million is primarily the result of $82.4 million of revenues contributed by the operations of Commonwealth Telephone Enterprises, which was acquired on March 8, 2007, and Global Valley, which was acquired on October 31, 2007, and a $15.8 million increase in data and internet services revenue, offset by declines in Federal and state subsidies and a decline in basic access lines.

Other operating expenses and network access expenses for the fourth quarter of 2007 were $257.2 million, as compared to $229.5 million in the fourth quarter of 2006, a 12 percent increase. The fourth quarter 2007 increase of $27.7 million is primarily the result of $20.7 million in expenses attributable to the acquired operations of Commonwealth Telephone Enterprises and Global Valley ($35.1 million excluding the impact of a pension curtailment gain of $14.4 million, resulting from the freeze placed on certain pension benefits of the former Commonwealth employees). The purchases of Commonwealth Telephone Enterprises and Global Valley have enabled the Company to leverage its centralized back office, customer service and administrative support functions over a larger customer base.

Operating income for the fourth quarter of 2007 was $174.9 million and operating income margin was 30.3 percent, as compared to operating income of $157.0 million and operating income margin of 31.1 percent in the fourth quarter of 2006. The fourth quarter 2007 increase of $17.9 million is primarily the result of $32.2 million contributed by the acquired operations of Commonwealth Telephone Enterprises and Global Valley, partially offset by increases in network access expenses and a reduction in revenue.

The Company added approximately 22,400 high-speed internet customers during the fourth quarter of 2007 and had more than 523,800 high-speed internet customers at December 31, 2007. The Company added approximately 9,400 video customers during the fourth quarter of 2007 and had more than 93,500 video customers at December 31, 2007. These fourth quarter net additions to high-speed internet and video customers exclude the impact of the Global Valley acquisition.

The Global Valley acquisition was completed on October 31, 2007. Global Valley represents $2.3 million of revenue for the two months in the quarter, 15,300 access lines and 4,200 high-speed internet customers.

Capital expenditures were $113.2 million for the fourth quarter of 2007 and $315.8 million for the year, including $34.3 million related to the acquired properties since the date of their respective acquisitions.

Free cash flow was $105.3 million for the fourth quarter of 2007 and $528.0 million for the year. The Company's $1 per common share annual dividend represents a payout of 64 percent of free cash flow for the year.

During the fourth quarter, the Company repurchased 2,175,000 shares of its common stock for $30.9 million and completed its $250.0 million authorized stock repurchase program.

The Company's Board of Directors has authorized a new common stock share repurchase program. Under the new program, up to $200 million of common stock may be repurchased over the next 12 months.

The Company expects that its capital expenditures and free cash flow for the full year 2008 will be approximately $300 million to $310 million and approximately $450 million to $475 million, respectively. The Company's 2008 free cash flow expectations take into consideration an estimate of cash taxes in the range of $130 million to $140 million. The Company's 2008 cash tax estimate does not reflect the impact of the "Economic Stimulus Act of 2008," which the Company is currently evaluating.

The Company's next regular quarterly cash dividend of $0.25 per share will be paid on March 31, 2008 to shareholders of record on March 10, 2008. The Company expects that dividends paid to stockholders in 2008 will be treated as dividends for federal income tax purposes. Shareholders are encouraged to consult with their tax advisors.

The Company uses certain non-GAAP financial measures in evaluating its performance. These include free cash flow and operating cash flow. A reconciliation of the differences between free cash flow and operating cash flow and the most comparable financial measures calculated and presented in accordance with GAAP is included in the tables that follow. The non-GAAP financial measures are by definition not measures of financial performance under generally accepted accounting principles and are not alternatives to operating income or net income reflected in the statement of operations or to cash flow as reflected in the statement of cash flows and are not necessarily indicative of cash available to fund all cash flow needs. The non-GAAP financial measures used by the Company may not be comparable to similarly titled measures of other companies.

The Company believes that presentation of non-GAAP financial measures provides useful information to investors regarding the Company's financial condition and results of operations because these measures, when used in conjunction with related GAAP financial measures, (i) together provide a more comprehensive view of the Company's core operations and ability to generate cash flow, (ii) provide investors with the financial analytical framework upon which management bases financial, operational, compensation and planning decisions, and (iii) presents measurements that investors and rating agencies have indicated to management are useful to them in assessing the Company and its results of operations. Management uses these non-GAAP financial measures to plan and measure the performance of its core operations, and its divisions measure performance and report to management based upon these measures. In addition, the Company believes that free cash flow and operating cash flow, as the Company defines them, can assist in comparing performance from period to period, without taking into account factors affecting cash flow reflected in the statement of cash flows, including changes in working capital and the timing of purchases and payments. The Company has shown adjustments to its financial presentations to exclude $14.4 million in pension curtailment gain in the fourth quarter and full year of 2007, and $3.2 million of severance and early retirement costs in the fourth quarter of 2006, and severance and early retirement costs of $13.9 million for the full year of 2007 and $7.2 million for the full year 2006, because the Company believes that the magnitude of such gains and costs in the third and fourth quarters of 2007 materially exceeds that which has been incurred by the Company in any other quarter during 2006 and 2007.

Management uses these non-GAAP financial measures to (i) assist in analyzing the Company's underlying financial performance from period to period, (ii) evaluate the financial performance of its business units, (iii) analyze and evaluate strategic and operational decisions, (iv) establish criteria for compensation decisions, and (v) assist management in understanding the Company's ability to generate cash flow and, as a result, to plan for future capital and operational decisions. Management uses these non-GAAP financial measures in conjunction with related GAAP financial measures. The Company believes that the non-GAAP financial measures are meaningful and useful for the reasons outlined above.

While the Company utilizes these non-GAAP financial measures in managing and analyzing its business and financial condition and believes they are useful to management and to investors for the reasons described above, these non-GAAP financial measures have certain shortcomings. In particular, free cash flow does not represent the residual cash flow available for discretionary expenditures, since items such as debt repayments and dividends are not deducted in determining such measure. Operating cash flow has similar shortcomings as interest, income taxes, capital expenditures, debt repayments and dividends are not deducted in determining this measure. Management compensates for the shortcomings of these measures by utilizing them in conjunction with their comparable GAAP financial measures. The information in this press release should be read in conjunction with the financial statements and footnotes contained in our documents filed with the U.S. Securities and Exchange Commission.

About Citizens Communications

Citizens Communications Company (NYSE:CZN) operates under the brand name of Frontier and offers telephone, television and internet services in 24 states with approximately 5,900 employees. More information is available at www.czn.com, www.frontieronline.com and www.frontier.myway.com.

This press release contains forward-looking statements that are made pursuant to the safe harbor provisions of The Private Securities Litigation Reform Act of 1995. These statements are made on the basis of management's views and assumptions regarding future events and business performance. Words such as "believe," "anticipate," "expect," and similar expressions are intended to identify forward-looking statements. Forward-looking statements (including oral representations) involve risks and uncertainties that may cause actual results to differ materially from any future results, performance or achievements expressed or implied by such statements. These risks and uncertainties are based on a number of factors, including but not limited to: reductions in the number of our access lines and high-speed internet subscribers; the effects of competition from cable, wireless and other wireline carriers (through voice over internet protocol (VOIP) or otherwise); the effects of greater than anticipated competition requiring new pricing, marketing strategies or new product offerings and the risk that we will not respond on a timely or profitable basis; the effects of general and local economic, business, industry and employment conditions on our revenues; our ability to effectively manage service quality; our ability to successfully introduce new product offerings, including our ability to offer bundled service packages on terms that are both profitable to us and attractive to our customers; our ability to sell enhanced and data services in order to offset ongoing declines in revenue from local services, switched access services and subsidies; changes in accounting policies or practices adopted voluntarily or as required by generally accepted accounting principles or regulators; the effects of ongoing changes in the regulation of the communications industry as a result of federal and state legislation and regulation, including potential changes in state rate of return limitations on our earnings, access charges and subsidy payments, and regulatory network upgrade and reliability requirements; our ability to effectively manage our operations, operating expenses and capital expenditures, to pay dividends and to reduce or refinance our debt; adverse changes in the ratings given to our debt securities by nationally accredited ratings organizations, which could limit or restrict the availability and/or increase the cost of financing; the effects of bankruptcies in the telecommunications industry, which could result in potential bad debts; the effects of technological changes and competition on our capital expenditures and product and service offerings, including the lack of assurance that our ongoing network improvements will be sufficient to meet or exceed the capabilities and quality of competing networks; the effects of increased medical, retiree and pension expenses and related funding requirements; changes in income tax rates, tax laws, regulations or rulings, and/or federal or state tax assessments; the effects of state regulatory cash management policies on our ability to transfer cash among our subsidiaries and to the parent company; our ability to successfully renegotiate union contracts expiring in 2008 and thereafter; our ability to pay a $1.00 per common share dividend annually, which may be affected by our cash flow from operations, amount of capital expenditures, debt service requirements, cash paid for income taxes (which will increase in the future) and our liquidity; the effects of fully utilizing our federal net operating loss carryforwards and AMT tax credit carryforwards that were generated in prior years, which have significantly increased our cash taxes in 2007 and will continue to do so in 2008 and 2009; the effects of any future liabilities or compliance costs in connection with worker health and safety matters; and the effects of any unfavorable outcome with respect to any of our current or future legal, governmental or regulatory proceedings, audits or disputes. These and other uncertainties related to our business are described in greater detail in our filings with the Securities and Exchange Commission, including our reports on Forms 10-K and 10-Q and the foregoing information should be read in conjunction with these filings. We do not intend to update or revise these forward-looking statements to reflect the occurrence of future events or circumstances.

Citizens Communications Company
Consolidated Financial Data (1)

(Amounts in thousands, except per share amounts)	For the quarter ended December 31, 2007	2006	% Change	For the year ended December 31, 2007	2006	% Change

Income Statement Data						
Revenue	$577,228	$504,396	14%	$2,288,015	$2,025,367	13%
Network access expenses	66,601	49,836	34%	228,242	171,247	33%
Other operating expenses	190,580	179,664	6%	808,501	733,143	10%
Depreciation and amortization	145,156	117,923	23%	545,856	476,487	15%
Total operating expenses	402,337	347,423	16%	1,582,599	1,380,877	15%
Operating income	174,891	156,973	11%	705,416	644,490	9%
Investment and other income (loss), net (2)	7,276	14,070	-48%	17,948	82,443	-78%
Interest expense	92,925	83,526	11%	380,696	336,446	13%
Income from continuing operations before income taxes	89,242	87,517	2%	342,668	390,487	-12%
Income tax expense	30,229	23,576	28%	128,014	136,479	-6%
Income from continuing operations	59,013	63,941	-8%	214,654	254,008	-15%
Income (loss) from discontinued operations, net of tax (3)	-	(30)	100%	-	90,547	-100%
Net income attributable to common shareholders	$ 59,013	$ 63,911	-8%	$ 214,654	$ 344,555	-38%

Weighted average shares outstanding	327,028	320,774	2%	331,037	322,641	3%
Basic net income per share attributable to common shareholders (4)						
Income from continuing operations	$ 0.18	$ 0.20	-10%	$ 0.65	$ 0.79	-18%
Income from discontinued operations	-	-	0%	-	0.28	-100%
Net income per common share	$ 0.18	$ 0.20	-10%	$ 0.65	$ 1.07	-39%
Other Financial Data						
Capital expenditures	$113,152	$105,450	7%	$ 315,793	$ 268,806	17%
Operating cash flow (5)	320,047	274,896	16%	1,251,272	1,120,977	12%
Free cash flow (5)	105,293	101,348	4%	528,005	561,784	-6%
Dividends paid	81,941	80,556	2%	336,025	323,671	4%
Dividend payout ratio (6)	78%	79%	-1%	64%	58%	10%

(1) On March 8, 2007, we acquired Commonwealth Telephone Enterprises, Inc. (CTE) for approximately $1.1 billion, and on October 31, 2007, we acquired Global Valley Networks Inc. and GVN Services (together GVN) for $62.0 million, and have included the historical results of CTE and GVN from the dates of acquisition.

(2) In April 2007, we redeemed $495.2 million principal amount of our 7.625% Senior Notes due 2008. The debt retirement generated a pre-tax loss on the early extinguishment of approximately $16.3 million. In April 2006, we received $64.6 million upon the liquidation of the Rural Telephone Bank.

(3) On July 31, 2006, we sold our CLEC business, Electric Lightwave,

LLC (ELI), for $247.0 million in cash plus the assumption of approximately $4.0 million in capital lease obligations. We recognized an after-tax gain on the disposal of ELI of $71.6 million.

(4) Calculated based on weighted average shares outstanding.

(5) A reconciliation to the most comparable GAAP measure is presented at the end of these tables.

(6) Represents dividends paid divided by free cash flow.

Citizens Communications Company
Consolidated Financial and Operating Data (1)

	For the quarter ended December 31,			For the year ended December 31,		
(Amounts in thousands, except operating data)	2007	2006	% Change	2007	2006	% Change
Select Income Statement Data						
Revenue						
Local services	$ 219,977	$ 199,729	10%	$ 875,762(2)	$ 809,584	8%
Data and internet services	147,292	111,378	32%	543,764(2)	424,209	28%
Access services	113,881	107,147	6%	479,462	427,959	12%
Long distance services	45,313	36,493	24%	180,525	153,272	18%
Directory services	28,910	28,423	2%	114,586	114,138	0%
Other	21,855	21,226	3%	93,916	96,205	-2%
Total revenue	577,228	504,396	14%	2,288,015	2,025,367	13%
Expenses						
Network access expenses	66,601	49,836	34%	228,242(2)	171,247	33%
Other operating expenses (3)	190,580	179,664	6%	808,501(2)	733,143	10%
Deprecia-						

tion and amor-tization	145,156	117,923	23%	545,856	476,487	15%
Total operating expenses	402,337	347,423	16%	1,582,599	1,380,877	15%
Operating Income	$ 174,891	$ 156,973	11%	$ 705,416	$ 644,490	9%
Other Financial and Operating Data						
Employees	5,939	5,446	9%	5,939	5,446	9%
Access lines	2,431,676	2,126,574	14%	2,431,676	2,126,574	14%
High-speed internet (HSI) sub-scribers	523,845	393,184	33%	523,845	393,184	33%
Video sub-scribers	93,596	62,851	49%	93,596	62,851	49%
Long distance sub-scribers	1,569,620	1,382,411	14%	1,569,620	1,382,411	14%
Switched access minutes of use (in millions)	2,605	2,434	7%	10,592	10,227	4%
Average monthly revenue per average access line (4)	$ 78.64	$ 78.48	0%	$ 81.50	$ 77.25	6%

(1) On March 8, 2007, we acquired Commonwealth Telephone Enterprises, Inc. (CTE) for approximately $1.1 billion, and on October 31, 2007, we acquired Global Valley Networks Inc. and GVN Services (together GVN) for $62.0 million, and have included the historical results of CTE and GVN from the dates of acquisition.

(2) Reflects a reclassification of $14.1 million of revenue of our CTE acquisition from local services to data and internet services. Also, expenses reflect a reclassification of $2.4 million of

expenses of our CTE acquisition from other operating expenses to network access expenses.

(3) For the year ended December 31, 2007, includes severance and early retirement costs of $13.9 million. For the quarter and year ended December 31, 2006, includes severance and early retirement costs of $3.2 million and $7.2 million, respectively. For the quarter and year ended December 31, 2007, includes pension curtailment gain of $14.4 million.

(4) For the year ended December 31, 2007, the calculation excludes CTE and GVN data and includes the $38.7 million favorable impact from the first quarter 2007 settlement of a switched access dispute. The amount is $79.94 without the $38.7 million favorable impact from the settlement.

Citizens Communications Company
Condensed Consolidated Balance Sheet Data (1)

(Amounts in thousands)

	December 31, 2007	December 31, 2006
ASSETS		
Current assets:		
Cash and cash equivalents	$ 226,466	$1,041,106
Accounts receivable and other current assets	297,688	231,887
Total current assets	524,154	1,272,993
Property, plant and equipment, net	3,335,244	2,983,504
Other long-term assets	3,396,671	2,541,039
Total assets	$7,256,069	$6,797,536
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Long-term debt due within one year	$ 2,448	$ 39,271
Accounts payable and other current liabilities	443,443	386,372
Total current liabilities	445,891	425,643
Deferred income taxes and other liabilities	1,075,382	846,775
Long-term debt	4,736,897	4,467,086
Shareholders' equity	997,899	1,058,032
Total liabilities and shareholders' equity	$7,256,069	$6,797,536

(1) On March 8, 2007, we acquired Commonwealth Telephone Enterprises,

Inc. (CTE) for approximately $1.1 billion, and on October 31, 2007, we acquired Global Valley Networks Inc. and GVN Services (together GVN) for $62.0 million, and have included the historical results of CTE and GVN from the dates of acquisition.

Citizens Communications Company
Consolidated Cash Flow Data (1)

(Amounts in thousands)

	For the year ended December 31, 2007	2006
Cash flows provided by (used in) operating activities:		
Net income	$ 214,654	$ 344,555
Deduct: Income from discontinued operations	-	(18,912)
Gain on sale of discontinued operations	-	(71,635)
Adjustments to reconcile income to net cash provided by operating activities:		
Depreciation and amortization expense	545,856	476,487
Stock based compensation expense	9,022	10,340
Loss on debt exchange	-	2,420
Losses on extinguishment of debt	20,186	-
Investment gain	-	(61,428)
Other non-cash adjustments	(7,598)	5,204
Deferred income taxes	81,011	132,031
Legal settlement	(7,905)	-
Change in accounts receivable	(4,714)	15,333
Change in accounts payable and other liabilities	(36,257)	(3,064)
Change in other current assets	7,428	(2,148)
Net cash provided by continuing operating activities	821,683	829,183
Cash flows provided from (used by) investing activities:		
Capital expenditures	(315,793)	(268,806)
Cash paid for acquisitions, net	(725,548)	-
Proceeds from sale of discontinued operations	-	255,305
Other assets (purchased) distributions received, net	6,629	67,050
Net cash (used by) provided from investing activities	(1,034,712)	53,549
Cash flows provided from (used by) financing activities:		

Long-term debt borrowings	950,000	550,000
Debt issuance costs	(12,196)	(6,948)
Premium paid to retire debt	(20,186)	-
Long-term debt payments	(946,070)	(227,693)
Issuance of common stock	13,808	27,200
Dividends paid	(336,025)	(323,671)
Common stock repurchased	(250,000)	(135,239)
Other	(942)	(264)
Net cash used by financing activities	(601,611)	(116,615)
Cash flows of discontinued operations:		
Operating activities	-	17,833
Investing activities	-	(6,593)
Financing activities	-	-
Net cash provided by discontinued operations	-	11,240
(Decrease) increase in cash and cash equivalents	(814,640)	777,357
Cash and cash equivalents at January 1,	1,041,106	263,749
Cash and cash equivalents at December 31,	$ 226,466	$1,041,106
Cash paid during the period for:		
Interest	$ 364,381	$ 332,204
Income taxes	$ 54,407	$ 5,365

(1) On March 8, 2007, we acquired Commonwealth Telephone Enterprises, Inc. (CTE) for approximately $1.1 billion, and on October 31, 2007, we acquired Global Valley Networks Inc. and GVN Services (together GVN) for $62.0 million, and have included the historical results of CTE and GVN from the dates of acquisition.

Schedule A

Reconciliation of Non-GAAP Financial Measures (1)

	For the quarter ended December 31,		For the year ended December 31,	
(Amounts in thousands)	2007	2006	2007	2006
Net Income to Free Cash Flow;				
Net Cash Provided by Operating Activities				
Net income	$ 59,013	$ 63,911	$214,654	$344,555

Add back:				
Depreciation and amortization	145,156	117,923	545,856	476,487
Income tax expense	30,229	23,576	128,014	136,479
Stock based compensation	1,213	2,380	9,022	10,340
Subtract:				
Cash paid (refunded) for income taxes	737	(2,965)	54,407	5,365
Pension curtailment gain (non-cash)	14,379	-	14,379	-
Investment and other income (loss), net of interest income	2,050	4,401	(15,038)	60,271
Capital expenditures	113,152	105,450	315,793	268,806
Gain (loss) on sale of discontinued operations	-	(444)	-	71,635
	---------	---------	---------	---------
Free cash flow	105,293	101,348	528,005	561,784
Add back:				
Deferred income taxes	26,887	28,138	81,011	132,031
Non-cash (gains)/losses, net	(18,990)	2,471	21,610	17,964
Investment and other income (loss), net of interest income	2,050	4,401	(15,038)	(1,157)
Pension curtailment gain (non-cash)	14,379	-	14,379	-
Cash paid (refunded) for income taxes	737	(2,965)	54,407	5,365
Capital expenditures	113,152	105,450	315,793	268,806
Subtract:				
Changes in current assets and liabilities	(56,353)	(37,744)	41,448	(10,121)
Income tax expense	30,229	23,576	128,014	136,479

Stock based compensation	1,213	2,380	9,022	10,340
Income from discontinued operations	-	414	-	18,912
Net cash provided by operating activities	$268,419	$250,217	$821,683	$829,183

(1) On March 8, 2007, we acquired Commonwealth Telephone Enterprises, Inc. (CTE) for approximately $1.1 billion, and on October 31, 2007, we acquired Global Valley Networks Inc. and GVN Services (together GVN) for $62.0 million, and have included the historical results of CTE and GVN from the dates of acquisition.

Schedule B

Reconciliation of Non-GAAP Financial Measures (1)

For the quarter ended December 31, 2007

(Amounts in thousands)

Operating Cash Flow and Operating Cash Flow Margin	As Reported	Pension Curtailment Gain	As Adjusted
Operating Income	$ 174,891	$14,379	$ 160,512
Add back:			
Depreciation and amortization	145,156	-	145,156
Operating cash flow	$ 320,047	$14,379	$ 305,668
Revenue	$ 577,228		$ 577,228
Operating income margin (Operating income divided by revenue)	30.3%		27.8%

Operating cash flow margin (Operating cash flow divided by revenue)	55.4%	53.0%

For the year ended December 31, 2007

Operating Cash Flow and Operating Cash Flow Margin	As Reported	Severance and Early Retirement Costs	Pension Curtailment Gain	As Adjusted
Operating Income	$ 705,416	$(13,874)	$14,379	$ 704,911
Add back: Depreciation and amortization	545,856	-	-	545,856
Operating cash flow	$1,251,272	$(13,874)	$14,379	$1,250,767
Revenue	$2,288,015			$2,288,015
Operating income margin (Operating income divided by revenue)	30.8%			30.8%
Operating cash flow margin (Operating cash flow divided by revenue)	54.7%			54.7%

For the quarter ended December 31, 2006

(Amounts in thousands)

Severance

Operating Cash Flow and Operating Cash Flow Margin	As Reported	and Early Retirement Costs	As Adjusted
Operating Income	$ 156,973	$(3,237)	$ 160,210
Add back:			
Depreciation and amortization	117,923	-	117,923
Operating cash flow	$ 274,896	$(3,237)	$ 278,133
Revenue	$ 504,396		$ 504,396
Operating income margin (Operating income divided by revenue)	31.1%		31.8%
Operating cash flow margin (Operating cash flow divided by revenue)	54.5%		55.1%

For the year ended December 31, 2006

Operating Cash Flow and Operating Cash Flow Margin	As Reported	Severance and Early Retirement Costs	As Adjusted
Operating Income	$ 644,490	$(7,193)	$ 651,683
Add back:			
Depreciation and amortization	476,487	-	476,487
Operating cash flow	$1,120,977	$(7,193)	$1,128,170
Revenue	$2,025,367		$2,025,367

Operating income margin

(Operating income divided by revenue)	31.8%	32.2%
	===========	===========
Operating cash flow margin (Operating cash flow divided by revenue)	55.3%	55.7%
	===========	===========

(1) On March 8, 2007, we acquired Commonwealth Telephone Enterprises, Inc. (CTE) for approximately $1.1 billion, and on October 31, 2007, we acquired Global Valley Networks Inc. and GVN Services (together GVN) for $62.0 million, and have included the historical results of CTE and GVN from the dates of acquisition.

SOURCE: Citizens Communications

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frontier Communications

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Press Release

Frontier Communications Reports Solid Fourth-Quarter and Full Year Results for 2008

2008 full year free cash flow of $493 million 2008 full year operating cash flow margin of 54% 2008 full year dividend pa ratio of 65% Continued strong operating income and cash flow margins Data and internet services revenue up 11% year year

STAMFORD, Conn.--(BUSINESS WIRE)--Feb. 25, 2009-- Frontier Communications (NYSE:FTR) today reported fourth-quarter 2008 reve of $547.4 million, operating income of $151.9 million and net income of $34.3 million.

"Frontier delivered another solid quarter of financial and operating results," said Maggie Wilderotter, Frontier Communications Chairman CEO. "Despite the continued economic uncertainty in our markets, our fundamental approach to how we run our business; focusing on customer revenue growth, increasing customer loyalty, delivering best in class margins, and creating long term value for shareholders h not changed. Furthermore, consistent with the guidance we gave twelve months ago, we delivered full year operating cash flow margins 54%, free cash flow of $493 million and a comfortable dividend payout ratio of 65% which demonstrates our ability to execute on our strategy and deliver promised results. Most important, our Q1 2009 marketing promotions are delivering strong results for both video a high speed bundle sales. We are off to a solid start for the year."

Revenue for the fourth quarter of 2008 was $547.4 million compared to $577.2 million in the fourth quarter of 2007, a 5 percent decre Revenue declined as a result of lower access lines, partially offset by a 5 percent increase in data and internet services revenue. Despite decline in access lines, our customer revenue, which is all revenue except switched access and subsidy, has declined by less than 3 perc The monthly customer revenue per access line has increased approximately $2.91, or 5%, over the prior year's fourth quarter while the monthly total revenue per access line has increased $1.49, or 2%, over the same period, as the Company has continued to successfully additional products and services, partially offset by reductions in regulatory revenue.

Other operating expenses and network access expenses for the fourth quarter of 2008 were $256.6 million as compared to $257. million in the fourth quarter of 2007, a 0.2 percent decrease. Expenses in the fourth quarter of 2007 were favorably impacted by a pens curtailment gain of $14.4 million, resulting from the freeze placed on certain pension benefits of the former Commonwealth Telephone Enterprises, Inc. employees. Excluding the non-cash gain in 2007, other operating expenses and network access expenses declined $15 million, or 5.5%, in 2008.

Operating income for the fourth quarter of 2008 was $151.9 million and operating income margin was 27.8 percent compared to operating income of $174.9 million and operating income margin of 30.3 percent in the fourth quarter of 2007. The fourth quarter 2008 decrease of $23.0 million is primarily the result of the reduction in revenue, partially offset by lower expenses.

The Company lost approximately 42,100 **access lines** during the fourth quarter of 2008 and had 2,254,300 access lines at December 3 2008.

The Company added approximately 8,500 net **High-Speed Internet customers** during the fourth quarter of 2008 and had 579,900 Hi Speed Internet customers at December 31, 2008. The Company added approximately 7,600 **video customers** during the fourth quarte 2008 and had 119,900 video customers at December 31, 2008.

Capital expenditures were $84.1 million for the fourth quarter of 2008 and $288.3 million for the full year of 2008.

Free cash flow was $109.1 million for the fourth quarter of 2008 and $493.2 million for the full year of 2008. The Company's dividend represents a payout of 65 percent of free cash flow for the full year of 2008.

During the fourth quarter of 2008, the Company repurchased 327,700 shares of its common stock for $3.8 million. The Company compl its $200 million authorized share repurchase program on October 3, 2008 through the repurchase of 17,778,000 shares of its common stock during the full year of 2008.

For the full year of 2009, the Company expects that its capital expenditures will be within a range of $250.0 million to $270.0 million an free cash flow will be within a range of $460.0 million to $485.0 million.

The Company's next regular quarterly cash dividend of $0.25 per share of common stock will be paid on March 31, 2009 to shareholder: record on March 9, 2009. The Company expects that dividends paid to stockholders in 2009 will be treated as dividends for federal incoı tax purposes. Shareholders are encouraged to consult with their tax advisors.

The Company uses certain non-GAAP financial measures in evaluating its performance. These include free cash flow and operating cash flow. A reconciliation of the differences between free cash flow and operating cash flow and the most comparable financial measures calculated and presented in accordance with GAAP is included in the tables that follow. The non-GAAP financial measures are by definitic not measures of financial performance under GAAP and are not alternatives to operating income or net income reflected in the statemer operations or to cash flow as reflected in the statement of cash flows and are not necessarily indicative of cash available to fund all cash flow needs. The non-GAAP financial measures used by the Company may not be comparable to similarly titled measures of other companies.

The Company believes that the presentation of non-GAAP financial measures provides useful information to investors regarding the Company's financial condition and results of operations because these measures, when used in conjunction with related GAAP financial measures, (i) together provide a more comprehensive view of the Company's core operations and ability to generate cash flow, (ii) prov investors with the financial analytical framework upon which management bases financial, operational, compensation and planning decis and (iii) presents measurements that investors and rating agencies have indicated to management are useful to them in assessing the Company and its results of operations. Management uses these non-GAAP financial measures to plan and measure the performance of i core operations, and its divisions measure performance and report to management based upon these measures. In addition, the Compa believes that free cash flow and operating cash flow, as the Company defines them, can assist in comparing performance from period to period, without taking into account factors affecting cash flow reflected in the statement of cash flows, including changes in working cap and the timing of purchases and payments. The Company has shown adjustments to its financial presentations to exclude $38.7 million access revenue for the favorable impact of the one-time carrier dispute settlement in the full year of 2007, $14.4 million in pension curtailment gain in the fourth quarter and full year of 2007, $7.6 million and $13.9 million of severance and early retirement costs in th years of 2008 and 2007, respectively, $4.0 million of severance and early retirement costs in the fourth quarter of 2008, $2.1 million ar $0.8 million of legal settlement costs and related expenses in the full years of 2008 and 2007, respectively, and $1.2 million and $0.8 million of legal settlement costs and related expenses in the fourth quarters of 2008 and 2007, respectively, because the Company belie that the magnitude of such revenues in 2007 is unusual, and that the magnitude of such gains and costs in the fourth quarter and full y of 2007 materially exceeds the comparable gains and costs in the fourth quarter and full year of 2008.

Management uses these non-GAAP financial measures to (i) assist in analyzing the Company's underlying financial performance from pe to period, (ii) evaluate the financial performance of its business units, (iii) analyze and evaluate strategic and operational decisions, (iv) establish criteria for compensation decisions, and (v) assist management in understanding the Company's ability to generate cash flow a as a result, to plan for future capital and operational decisions. Management uses these non-GAAP financial measures in conjunction wit related GAAP financial measures. The Company believes that the non-GAAP financial measures are meaningful and useful for the reason outlined above.

While the Company utilizes these non-GAAP financial measures in managing and analyzing its business and financial condition and belie they are useful to management and to investors for the reasons described above, these non-GAAP financial measures have certain shortcomings. In particular, free cash flow does not represent the residual cash flow available for discretionary expenditures, since item: such as debt repayments and dividends are not deducted in determining such measure. Operating cash flow has similar shortcomings a: interest, income taxes, capital expenditures, debt repayments and dividends are not deducted in determining this measure. Managemer compensates for the shortcomings of these measures by utilizing them in conjunction with their comparable GAAP financial measures. T information in this press release should be read in conjunction with the financial statements and footnotes contained in our documents f with the U.S. Securities and Exchange Commission.

About Frontier Communications

Frontier Communications Corporation (NYSE:FTR) offers telephone, video and internet services in 24 states with approximately 5,700 employees. More information is available at **www.frontier.com**.

This press release contains forward-looking statements that are made pursuant to the safe harbor provisions of The Private Securities Litigation Reform Act of 1995. These statements are made on the basis of management's views and assumptions regarding future event and business performance. Words such as "believe," "anticipate," "expect" and similar expressions are intended to identify forward-look statements. Forward-looking statements (including oral representations) involve risks and uncertainties that may cause actual results tc differ materially from any future results, performance or achievements expressed or implied by such statements. These risks and uncertainties are based on a number of factors, including but not limited to: reductions in the number of our access lines and High-Spee Internet subscribers; the effects of competition from cable, wireless and other wireline carriers (through voice over internet protocol (VC or otherwise); reductions in switched access revenues as a result of regulation, competition and/or technology substitutions; the effects greater than anticipated competition requiring new pricing, marketing strategies or new product offerings and the risk that we will not respond on a timely or profitable basis; the effects of changes in both general and local economic conditions on the markets we serve, which can impact demand for our products and services, customer purchasing decisions, collectability of revenue and required levels of capital expenditures related to new construction of residences and businesses; our ability to effectively manage service quality; our abili to successfully introduce new product offerings, including our ability to offer bundled service packages on terms that are both profitable us and attractive to our customers; our ability to sell enhanced and data services in order to offset ongoing declines in revenue from loc services, switched access services and subsidies; changes in accounting policies or practices adopted voluntarily or as required by gener accepted accounting principles or regulators; the effects of ongoing changes in the regulation of the communications industry as a resul federal and state legislation and regulation, including potential changes in state rate of return limitations on our earnings, access charge and subsidy payments, and regulatory network upgrade and reliability requirements; our ability to effectively manage our operations, operating expenses and capital expenditures, to pay dividends and to reduce or refinance our debt; adverse changes in the credit marke and/or in the ratings given to our debt securities by nationally accredited ratings organizations, which could limit or restrict the availabil of, and/or increase the cost of financing; the effects of bankruptcies and home foreclosures, which could result in increased bad debts; t effects of technological changes and competition on our capital expenditures and product and service offerings, including the lack of assurance that our ongoing network improvements will be sufficient to meet or exceed the capabilities and quality of competing network the effects of increased medical, retiree and pension expenses and related funding requirements; changes in income tax rates, tax laws, regulations or rulings, and/or federal or state tax assessments; further declines in the value of our pension plan assets, which could req us to make contributions to the pension plan beginning in 2010; the effects of state regulatory cash management policies on our ability transfer cash among our subsidiaries and to the parent company; our ability to successfully renegotiate union contracts expiring in 2009 and thereafter; our ability to pay a $1.00 per common share dividend annually, which may be affected by our cash flow from operations amount of capital expenditures, debt service requirements, cash paid for income taxes (which will increase in 2009) and our liquidity; th effects of significantly increased cash taxes in 2009 and thereafter; the effects of any unfavorable outcome with respect to any of our current or future legal, governmental or regulatory proceedings, audits or disputes; the possible impact of adverse changes in political c other external factors over which we have no control; and the effects of hurricanes, ice storms and other severe weather. These and oth uncertainties related to our business are described in greater detail in our filings with the Securities and Exchange Commission, includin our reports on Forms 10-K and 10-Q, and the foregoing information should be read in conjunction with these filings. We do not intend to update or revise these forward-looking statements to reflect the occurrence of future events or circumstances.

Frontier Communications Corporation

Consolidated Financial Data [1]

(Amounts in thousands, except per share amounts)	For the quarter ended December 31, 2008	For the quarter ended December 31, 2007	% Change	For the year ended December 31, 2008	For the year ended December 31, 2007	% Change
Income Statement Data						
Revenue	$ 547,392	$ 577,228	-5%	$2,237,018	$2,288,015[2]	-2%
Network access expenses	54,988	66,601	-17%	222,013	228,242	-3%

Other operating expenses	201,655	190,580	6%	810,748	808,501	0%
Depreciation and amortization	138,815	145,156	-4%	561,801	545,856	3%
Total operating expenses	395,458	402,337	-2%	1,594,562	1,582,599	1%
Operating income	151,934	174,891	-13%	642,456	705,416	-9%
Investment and other income, net (3)	2,874	7,276	-61%	9,334	17,948	-48%
Interest expense	90,731	92,925	-2%	362,634	380,696	-5%
Income before income taxes	64,077	89,242	-28%	289,156	342,668	-16%
Income tax expense	29,779	30,229	-1%	106,496	128,014	-17%
Net income available for common shareholders	$ 34,298	$ 59,013	-42%	$ 182,660	$ 214,654	-15%
Weighted average shares outstanding	309,634	327,028	-5%	317,501	331,037	-4%
Basic net income per share attributable to common shareholders (4)	$ 0.11	$ 0.18	-39%	$ 0.58	$ 0.65(2)	-11%
Other Financial Data						
Capital expenditures	$ 84,065	$ 113,152	-26%	$ 288,264	$ 315,793	-9%
Operating cash flow (5)	295,961	306,451	-3%	1,213,967	1,212,883	0%
Free cash flow (5)	109,079	104,387	4%	493,197	528,005	-7%
Dividends paid	77,835	81,941	-5%	318,437	336,025	-5%
Dividend payout ratio (6)	71%	78%	-9%	65%	64%	2%

(1) On March 8, 2007, we acquired Commonwealth Telephone Enterprises, Inc. (CTE) for approximately $1.1 billion, and on October 31, 2007, we acquired Global Valley Networks, Inc. and GVN Services (together GVN) for $62.0 million, and have included the historical results of CTE and GVN from the date acquisition.

(2) Includes the $38.7 million favorable impact of a carrier dispute settlement, representing $.07 per share.

(3) Includes premium on debt repurchases of $6.3 million and $18.2 million for the years ended December 31, 2008 and 2007, respectively, and $4.1 millior bridge loan fee for the year ended December 31, 2007.

(4) Calculated based on weighted average shares outstanding.

(5) A reconciliation to the most comparable GAAP measure is presented at the end of these tables.

(6) Represents dividends paid divided by free cash flow.

Frontier Communications Corporation

Consolidated Financial and Operating Data (1)

(Amounts in thousands, except operating data)	**For the quarter ended December 31, 2008**	**2007**	**% Change**	**For the year ended December 31, 2008**	**2007**	**% Change**
Select Income Statement Data						
Revenue						
Local services	$ 205,783	$ 219,977	-6%	$ 848,393	$ 875,762	-3%
Data and internet services	153,931	147,292	5%	605,615	543,764	11%
Access services	96,337	113,881	-15%	404,713	479,462(2)	-16%
Long distance services	42,799	45,313	-6%	182,559	180,525	1%
Directory services	27,523	28,910	-5%	113,347	114,586	-1%
Other	21,019	21,855	-4%	82,391	93,916	-12%
Total revenue	547,392	577,228	-5%	2,237,018	2,288,015	-2%
Expenses						
Network access expenses	54,988	66,601	-17%	222,013	228,242	-3%
Other operating expenses (3)	201,655	190,580	6%	810,748	808,501	0%
Depreciation and amortization	138,815	145,156	-4%	561,801	545,856	3%
Total operating expenses	395,458	402,337	-2%	1,594,562	1,582,599	1%

Operating Income	$ 151,934	$ 174,891	-13%	$ 642,456	$ 705,416	-9%
Other Financial and Operating Data						
Revenue:						
Residential	$ 225,107	$ 240,236	-6%	$ 944,786	$ 958,453	-1%
Business	225,948	223,111	1%	887,519	850,100	4%
Total customer revenue	451,055	463,347	-3%	1,832,305	1,808,553	1%
Regulatory (Access services)	96,337	113,881	-15%	404,713	479,462	-16%
Total revenue	$ 547,392	$ 577,228	-5%	$2,237,018	$2,288,015	-2%
Access lines:						
Residential	1,454,268	1,587,930	-8%	1,454,268	1,587,930	-8%
Business	800,065	841,212	-5%	800,065	841,212	-5%
Total access lines	2,254,333	2,429,142	-7%	2,254,333	2,429,142	-7%
Other data:						
Employees	5,671	5,939	-5%	5,671	5,939	-5%
High-Speed Internet (HSI) subscribers(4)	579,943	522,845	11%	579,943	522,845	11%
Video subscribers	119,919	93,596	28%	119,919	93,596	28%
Switched access minutes of use (in millions)	2,365	2,605	-9%	10,027	10,592	-5%
Average monthly total revenue per access line	$ 80.19	$ 78.70	2%	$ 83.05(5)	$ 79.94(6)	4%
Average monthly customer revenue per access line	$ 66.08	$ 63.17	5%	$ 68.65(5)	$ 65.00(5)	6%

(1) On March 8, 2007, we acquired Commonwealth Telephone Enterprises, Inc. (CTE) for approximately $1.1 billion, and on October 31, 2007, we acquired Global Valley Networks, Inc. and GVN Services (together GVN) for $62.0 million, and have included the historical results of CTE and GVN from the date acquisition.

(2) Includes the $38.7 million favorable impact of a carrier dispute settlement.

(3) Includes severance and early retirement costs of $4.0 million for the quarter ended December 31, 2008, and $7.6 million and $13.9 million for the years ended December 31, 2008 and 2007, respectively. Includes pension curtailment gain of $14.4 million for the quarter and year ended December 31, 2007 Includes legal settlement costs and related expenses of $1.2 million and $0.8 million for the quarters ended December 31, 2008 and 2007, respectively, $2.1 million and $0.8 million for the years ended December 31, 2008 and 2007, respectively.

(4) High-Speed Internet subscribers as of October 1, 2008 have been revised by 516 to 571,430, arising from the CARS billing system conversion.

(5) For the years ended December 31, 2008 and 2007, the calculations exclude CTE and GVN data.

(6) For the year ended December 31, 2007, the calculation excludes CTE and GVN data and excludes the $38.7 million favorable one-time impact from the quarter 2007 settlement of a switched access dispute. The amount is $81.50 with the $38.7 million favorable one-time impact from the settlement.

Frontier Communications Corporation

Condensed Consolidated Balance Sheet Data (1)

(Amounts in thousands)

	December 31, 2008	December 31, 2007
ASSETS		
Current assets:		
Cash and cash equivalents	$ 163,627	$ 226,466
Accounts receivable and other current assets	304,332	297,688
Total current assets	467,959	524,154
Property, plant and equipment, net	3,239,973	3,335,244
Other long-term assets	3,180,744	3,396,671
Total assets	$ 6,888,676	$ 7,256,069

LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Long-term debt due within one year	$ 3,857	$ 2,448
Accounts payable and other current liabilities	378,918	443,443
Total current liabilities	382,775	445,891
Deferred income taxes and other liabilities	1,265,171	1,075,382
Long-term debt	4,721,685	4,736,897
Shareholders' equity	519,045	997,899
Total liabilities and shareholders' equity	$ 6,888,676	$ 7,256,069

(1) On March 8, 2007, we acquired Commonwealth Telephone Enterprises, Inc. (CTE) for approximately $1.1 billion, and on October 31, 2007, we acquired Global Valley Networks, Inc. and GVN Services (together GVN) for $62.0 million, and have included the historical results of CTE and GVN from the date acquisition.

Frontier Communications Corporation
Consolidated Cash Flow Data (1)
(Amounts in thousands)

	For the year ended December 31,	
	2008	2007
Cash flows provided by (used in) operating activities:		
Net income	$ 182,660	$ 214,654
Adjustments to reconcile income to net cash provided by operating activities:		
Depreciation and amortization expense	561,801	545,856
Stock based compensation expense	7,788	9,022
Loss on extinguishment of debt	6,290	20,186
Other non-cash adjustments	(7,044)	(7,598)
Deferred income taxes	33,967	81,011
Legal settlement	-	(7,905)
Change in accounts receivable	9,746	(4,714)
Change in accounts payable and other liabilities	(52,047)	(36,257)
Change in other current assets	(3,895)	7,428
Net cash provided by operating activities	739,266	821,683
Cash flows provided from (used by) investing activities:		
Capital expenditures	(288,264)	(315,793)
Cash paid for acquisitions, net	-	(725,548)
Other assets (purchased) distributions received, net	5,489	6,629
Net cash used by investing activities	(282,775)	(1,034,712)
Cash flows provided from (used by) financing activities:		
Long-term debt borrowings	135,000	950,000
Long-term debt payments	(142,480)	(946,070)
Settlement of interest rate swaps	15,521	-
Financing costs paid	(857)	(12,196)
Premium paid to retire debt	(6,290)	(20,186)
Issuance of common stock	1,398	13,808
Common stock repurchased	(200,000)	(250,000)
Dividends paid	(318,437)	(336,025)
Repayment of customer advances for construction	(3,185)	(942)
Net cash used by financing activities	(519,330)	(601,611)
Decrease in cash and cash equivalents	(62,839)	(814,640)
Cash and cash equivalents at January 1,	226,466	1,041,106
Cash and cash equivalents at December 31,	$ 163,627	$ 226,466

Cash paid during the period for:				
Interest	$	365,858	$	364,381
Income taxes	$	78,878	$	54,407

(1) On March 8, 2007, we acquired Commonwealth Telephone Enterprises, Inc. (CTE) for approximately $1.1 billion, and on October 31, 2007, we acquired Global Valley Networks, Inc. and GVN Services (together GVN) for $62.0 million, and have included the historical results of CTE and GVN from the date acquisition.

Schedule A

Reconciliation of Non-GAAP Financial Measures (1)

(Amounts in thousands)	For the quarter ended December 31, 2008	For the quarter ended December 31, 2007	For the year ended December 31, 2008	For the year ended December 31, 2007
Net Income to Free Cash Flow ;				
Net Cash Provided by Operating Activities				
Net income	$ 34,298	$ 59,013	$ 182,660	$ 214,654
Add back:				
Depreciation and amortization	138,815	145,156	561,801	545,856
Income tax expense	29,779	30,229	106,496	128,014
Stock based compensation	(1,423)	1,213	7,788	9,022
Subtract:				
Cash paid for income taxes	8,704	737	78,878	54,407
Pension curtailment gain (non-cash)	-	14,379	-	14,379
Other income (loss), net (2)	(379)	2,956	(1,594)	(15,038)
Capital expenditures	84,065	113,152	288,264	315,793
Free cash flow	**109,079**	**104,387**	**493,197**	**528,005**
Add back:				
Deferred income taxes	45,007	26,887	33,967	81,011
Non-cash (gains)/losses, net	(1,355)	(18,990)	7,034	21,610
Other income (loss), net (2)	(379)	2,956	(1,594)	(15,038)
Pension curtailment gain (non-cash)	-	14,379	-	14,379
Cash paid for income taxes	8,704	737	78,878	54,407
Capital expenditures	84,065	113,152	288,264	315,793
Subtract:				
Changes in current assets and liabilities	(25,411)	(56,353)	46,196	41,448
Income tax expense	29,779	30,229	106,496	128,014
Stock based compensation	(1,423)	1,213	7,788	9,022

Net cash provided by operating activities	**$ 242,176**	**$ 268,419**	**$ 739,266**	**$ 821,683**

(1) On March 8, 2007, we acquired Commonwealth Telephone Enterprises, Inc. (CTE) for approximately $1.1 billion, and on October 31, 2007, we acquired Global Valley Networks, Inc. and GVN Services (together GVN) for $62.0 million, and have included the historical results of CTE and GVN from the date acquisition.

(2) Includes premium on debt repurchases of $6.3 million and $18.2 million for the years ended December 31, 2008 and 2007, respectively, and $4.1 millior bridge loan fee for the year ended December 31, 2007.

(3) Includes the $38.7 million favorable impact of a carrier dispute settlement.

Schedule B

Reconciliation of Non-GAAP Financial Measures (1)

(Amounts in thousands)	For the quarter ended December 31, 2008				For the quarter ended December 31, 2007			
Operating Cash Flow and Operating Cash Flow Margin	As Reported	Severance and Early Retirement Costs	Legal Settlement Costs	**As Adjusted**	As Reported	Pension Curtailment Gain	Legal Settlement Costs	**As Adjusted**
Operating Income	$ 151,934	$ (4,000)	$ (1,212)	**$ 157,146**	$ 174,891	$ 14,379	$ (783)	**$161,295**
Add back:								
Depreciation and amortization	138,815	-	-	**138,815**	145,156	-	-	**145,156**
Operating cash flow	$ 290,749	$ (4,000)	$ (1,212)	**$ 295,961**	$ 320,047	$ 14,379	$ (783)	**$306,451**
Revenue	$ 547,392			**$ 547,392**	$ 577,228			**$577,228**
Operating income margin								
(Operating income divided by revenue)	27.8%			**28.7%**	30.3%			**27.9%**
Operating cash flow margin								
(Operating cash flow divided by revenue)	53.1%			**54.1%**	55.4%			**53.1%**

	For the year ended December 31, 2008				For the year ended December 31, 2007					
Operating Cash Flow and Operating Cash Flow Margin	As Reported	Severance and Early Retirement Costs	Legal Settlement Costs	**As Adjusted**	As Reported	Carrier Dispute Settlement	Severance and Early Retirement Costs	Pension Curtailment Gain	Legal Settlement Costs	**As Adjust**

Operating income	$ 642,456	$ (7,597)	$ (2,113)	**$ 652,166**	$ 705,416	$ 38,700	$ (13,874)	$ 14,379	$ (816)	**$ 667,0:**
Add back:										
Depreciation and amortization	561,801	-	-	**561,801**	545,856	-	-	-	-	**545,8**
Operating cash flow	$1,204,257	$ (7,597)	$ (2,113)	**$1,213,967**	$1,251,272	$ 38,700	$ (13,874)	$ 14,379	$ (816)	**$1,212,8**
Revenue	$2,237,018			**$2,237,018**	$2,288,015	$ 38,700				**$2,249,3**
Operating income margin										
(Operating income divided by revenue)	28.7%			**29.2%**	30.8%					**29**
Operating cash flow margin										
(Operating cash flow divided by revenue)	53.8%			**54.3%**	54.7%					**53**

(1) On March 8, 2007, we acquired Commonwealth Telephone Enterprises, Inc. (CTE) for approximately $1.1 billion, and on October 31, 2007, we acquired Global Valley Networks, Inc. and GVN Services (together GVN) for $62.0 million, and have included the historical results of CTE and GVN from the date acquisition.

Source: Frontier Communications

Frontier Communications
David Whitehouse, 203-614-5708
Senior Vice President & Treasurer
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BEFORE
THE PUBLIC SERVICE COMMISSION
OF SOUTH CAROLINA

DOCKET NO. 2009-220-C

IN RE: Joint Application of Frontier Communications Corporation, New Communications of the Carolinas, Inc., New CommunicationsOnline, and Long Distance, LLC, and Verizon Enterprise Solutions LLC for Approval of the Sale of Assets and the Transfer of Authority and Certificates	**CERTIFICATE OF SERVICE**

I, the undersigned, an employee of Richardson, Plowden & Robinson, P. A., attorneys for Frontier Communications Corporation do hereby certify that I have served the foregoing Pre-Filed Rebuttal Testimony of Daniel McCarthy on behalf of and its attachments by causing it to be deposited in the U.S. mail, postage prepaid, or by hand delivery, on this 6th day of August, 2009, to the following:

Nanette S. Edwards, **Chief Counsel and Director of Legal Services** **S.C. Office of Regulatory Staff** **1401 Main Street, Suite 900** **Columbia, SC 29201**	**Terrance A. Spann** **Department of the Army** **U.S. Army Legal Services Agency** **901 North Stuart Street** **Arlington, VA 22202-1837**
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Kathy J. Templeton

Kathy J. Templeton

Dated: August 6, 2009